A STUDY OF INDIAN ECONOMICS

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PRAMATHANATH BANERJEA
M.A. (Calcutta), D.Sc. Econ. (London)
BARRISTER-AT-LAW
FORMERLY FELLOW AND MINTO PROFESSOR OF ECONOMICS,
CALCUTTA UNIVERSITY
SOMETIME LEADER, NATIONALIST PARTY,
INDIAN LEGISLATIVE ASSEMBLY

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पितृदेवेर श्रीचरणे

PREFACE TO THE FIRST EDITION

THIS book is intended to be an introductory manual for those who wish to make a serious study of Indian Economics. It has been written from the standpoint of the scientific inquirer, and is, the author believes, free from political bias. An attempt has been made throughout the book to present the different aspects of every question in the fairest possible manner.

The author has tried to avail himself of the best available sources of information in respect of the various subjects dealt with in the book. He takes this opportunity to express his gratitude to the authors, editors or publishers of all publications from which he has gathered any information. He is especially grateful to Mr. J. M. Keynes (afterwards Lord Keynes), for many valuable suggestions relating to Indian Currency.

The book is being published in a hurry, and some typographical errors will perhaps be found in it, for which the author craves the indulgence of the reader.

LONDON, *June*, 1911.

PREFACE TO THE EIGHTH EDITION

FOR the Eighth Edition the book has been revised and brought up to date. The historical portions have been considerably abridged in many places, while the recent economic developments have been more fully dealt with. The best thanks of the author are due to Sri Nirmal Kumar Roy, Dr. Bimalendu Dhar, and Sri J. Guha Thakurta for their valuable suggestions and to Dr. Akshay Kumar Ghosal, Sri Biswanath Banerjea, Sri Ajay Hriday Mitra, Sri Nirmal Kumar Bose, Sri Ranjit Lahiri, Sri Kamakhyanath Maitra, Sri Braja Gopal Saha and Sri Bireswar Banerjea for assisting him in seeing the book through the press.

CALCUTTA
September 10, 1957.

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PART I

MAINLY ANALYTICAL AND DESCRIPTIVE

CHAPTER I

INTRODUCTORY

THE subject of Indian Economics presents many difficulties to the student which it may be useful to note at the outset.

Obstacles to the study of the subject: Applicability of economic principles.

The first and the most serious difficulty is to be found in regard to the applicability of the principles of General Economics to Indian conditions. There was a time when such principles were believed to be of universal application, and the truths which Economics inculcates were regarded as absolute truths, like those of the physical sciences. Some economists, however, early realised the limitations of this science. Bagehot went so far as to declare that the doctrines of English Political Economy had little validity outside England. He very properly called the English system of Economics "the science of business, such as business is in large productive and trading communities."[1]

Economics, as it is taught in the West, is based on a number of assumptions, conscious or unconscious. When we examine these assumptions, we find that many of them are valid in India only to a limited extent.[2] This being so, it would be wrong to

[1] Bagehot, *Postulates of English Political Economy*, p. 7.

[2] M. G. Ranade, in his *Essays in Indian Economics*, summed up the position in India in regard to the ordinary economic assumptions in the following words: "With us an average individual man is, to a large extent, the very antipodes of the economical man. The Family and the Caste are more powerful than the individual in determining his position in life. Self-interest in the shape of desire of wealth is not absent, but it is not the only nor the principal motor. The pursuit of wealth is not the only ideal aimed at. There is neither the desire nor the aptitude for free and unlimited Competition except within certain predetermined grooves or groups. Custom and State regulation are far more powerful than Competition, and Status more decisive than Contract. Neither Capital nor Labour is mobile, and enterprising and intelligent enough to shift from place to place. Wages and profits are fixed, and not elastic and responsive to change of circumstances. Population follows its own law, being cut down by disease and famine, while production is almost stationary, the bumper harvest of one year being needed to provide against the uncertainties of alternate bad seasons. In a society so constituted, the tendencies assumed as axiomatic, are not only inoperative, but are actually deflected from their proper direction. You might as well talk of the tendency of mountains to be washed away into the sea, or of the valleys to fill up, or of the sun to get cold, as reasons for our practical conduct within a reasonable distance

import wholesale into India the economic conceptions of the West, and to apply them without modification or limitation to Indian conditions. But although the conclusions of General Economics may not, in all cases, be quite valid in India, the economic tendencies are none the less true. Human nature being the same everywhere in all essential particulars, the same sets of causes always tend to produce, under given circumstances, similar sets of effects. And as Indian conditions are gradually approaching nearer and nearer the conditions of the West, Western economic theories are becoming increasingly applicable to Indian affairs. Besides, economic facts of the modern world are so closely interrelated, that it is not possible to study the problems of one country in complete isolation from those of others. It will not do, therefore, to brush aside the theories of General Economics as absolutely useless for our purposes. What is needed is to apply those theories to Indian conditions with such modifications and limitations as the differences in the circumstances may suggest. The economic phenomena of India must be studied separately, but they must also be considered in their relation to, and dependence upon, economic phenomena outside the country.

Complexity of Indian economic phenomena.

The second difficulty arises from the fact that India is at the present moment in a state of economic transition. The older habits and customs are being modified by the impact of Western ideas and ideals. New circumstances are bringing about changes in the social and economic life of the people. In fact, the conflict between the past and the present is now the dominating condition. The influence of the West is not, however, uniform throughout the country, so that we find industrial India standing side by side with agricultural India. Economic phenomena are complex everywhere, but this fact of transition introduces an additional complexity into the economic problems which present themselves for solution in India.

Want of reliable data.

Another obstacle with which the student is often faced is the absence of reliable data. There being few independent agencies for the collection and investigation of economic facts, the Blue-Books and Papers published by the various departments of the Government form almost his only source of information.

of time." Ranade wrote six decades ago; since then the situation has undergone substantial change; but his description of the state of things remains true to some extent even at the present moment.

But he cannot always depend upon such information, for the agency by which the statistics are collected is not reliable, and the method employed in their presentation is often unsatisfactory. Much care has, therefore, to be taken in the understanding and use of these statistics; and unless this is done, the student runs the risk of being led away into wrong genralisations and conclusions.

It is a matter of satisfaction that attempts are being made to improve the collection and presentation of statistics in India. The Department of Commercial Intelligence and Statistics of the Government of India is rendering valuable service in this respect. Besides occasional Reports, publications like *Sankhya*, the *Reserve Bank of India Bulletin*, the *Monthly Abstract of Statistics*, the *Indian Trade Journal*, the *Agricultural Situation in India*, *Indian Minerals*, the *Indian Jute Bulletin*, the *Indian Labour Gazette* and the *Journal of Industry and Trade*, provide periodically a large mass of material for the study of the economic problems of the country. Some quasi-official bodies are making serious efforts for the collection of useful data, while the Indian Statistical Institute of Calcutta, with its branches in other parts of the country, is making sample surveys and trying to devise methods for the better use of the available material.[1]

Personal sentiment.

Personal sentiment is yet another obstacle to the proper study of the subject. To make the study fruitful, absolute regard for truth is essential in the investigation of economic phenomena and personal likes and dislikes, as well as conisderations of individual or class interests, must be wholly set aside. Unfortunately, the position in India, as perhaps in most other countries, is such that those who take part in economic discussions are often led by passion and prejudice to identify themselves with this or that party, and thus find it difficult to recognise and appreciate the whole truth.

These are some of the reasons which account for the fact that the study of economic conditions and problems of India was

Bowley-Robertson Report.

[1] In 1933, the Government of India appointed Dr. A. L. Bowley and Mr. D. H. Robertson to report upon the possible improvements in the collection of statistics in India. The report, published in 1934, gave some practical suggestions regarding the proposed Census of Production and the reorganisation of the methods of collection and presentation of statistics.

not, until recently, pursued with the amount of earnestness which was necessary. M. G. Ranade was the first Indian to take up the study of Indian Economics in a scientific spirit. R. C. Dutt opened up a new line of enquiry by his scholarly studies in economic history and in some of the major economic problems of his times. Dadabhai Naoroji and G. K. Gokhale also made very valuable contributions to the study of Indian Economics in the course of their political speeches and writings. The road pointed out by these great men has been traversed during the last half-century by a large number of scholars and practical businessmen, whose studies now cover a wide field.

In the following pages an attempt will be made to deal with the subject in a systematic manner. The prevailing method and arrangement of economic science will be followed, with such modifications as the differences in the social and economic circumstatnces suggest and the principles of General Economics will be examined in the light of Indian facts.[1] It is not possible to present a full and exhaustive treatment of the various questions of Indian Economics within the limits of a medium-size volume like this. The object of the author is mainly to equip the reader with such knowledge of the economic facts and problems of India as will help him in pursuing fuller and more detailed studies of the different branches of the subject later.

[1] Economists in Europe and America are gradually coming to attach importance to what they describe as 'imperfect competition'. In India, imperfect competition is an important characteristic of the economic order; it may not, therefore, be unreasonable to hope that a study of the economic conditions of India will help to elucidate many problems of the pure theory of Economics.

CHAPTER II

THE NATURAL ENVIRONMENT

MAN is ultimately dependent on nature in every aspect of his life. His economic life, in particular, is closely related to the facts of nature. The physical environment is, in reality, the basis of all economic activity. In the case of India, therefore, as in that of any other country, a study of economic phenomena should start with an investigation of the physical factor. This subject may be considered, for our purpose, under the five heads of the geographical situation, the geological structure, the climate, the flora and fauna, and the facilities of communication.

1. GEOGRAPHICAL SITUATION

India, today, though diminished in size after Partition, still covers a wide area. Before Partition, India contained an area of 1,581,000 square miles and measured about 2,000 miles from north to south and 1,950 miles from east to west. At present the total area of the Indian Union is 1,269,640 square miles, comprising 30 States including Jammu and Kashmir (92,780 sq. miles) and the group of Andaman and Nicobar Islands lying in the Bay of Bengal. It has a land frontier 8,200 miles long and a coast line of about 3,500 miles; it measures 1,700 miles from east to west and 2,000 miles from north to south. **Extent.**

Measured by the extent of her territory, India is the seventh largest country in the world. It is about 13 times as large as the United Kingdom and 8 times the size of Japan, while it is only a third of the U.S.A. and a seventh of the U.S.S.R. **Size compared.**

India lies north of the Equator between the latitudes 8° and 37′ and longitudes 66° 20′ to 97°. The Himalayas, with their snow-clad peaks, form the northern boundary of this vast country. Undivided India was surrounded on all sides of the land frontier by lofty mountains. But Partition has deprived India of its basic advantage of being a geographical unit separated by nature from the rest of the world. The land boundaries of India on the west as well as on the east are at present artificial. Western Pakistan lies to the west of India, and on **Boundaries.**

the east Eastern Pakistan forms a wedge between West Bengal and Assam.

Natural Divisions

From the geographical point of view, India today may be divided into three major regions: the Himalayan region of the north, the Deccan Plateau of the south, and the vast stretch of plains standing between these two regions. Within its own borders the country presents so many marked differences in physical features that India is often described as a continent rather than a country.

The Himalayas.

The Himalayas, rising from the plains of India in a series of almost parallel ranges to the loftiest heights, and spreading over a vast area, are the most striking feature in the geography of the country. Acting as a climatic barrier, and being the perennial source of the great rivers which moisten the parched lands of Northern India and endow the soil with inexhaustible fertility, they have always exercised the greatest influence not only on the physical condition of the country, but also on the moral and economic life of its people. The parallel ranges of the Himalayas are interspersed with big plateaus and valleys some of which, like the Kashmir and Kulu valleys, are fertile, extensive and of great scenic beauty. Some of the highest peaks of the world are to be found in these ranges, *e.g.*, Mount Everest (29,141 ft.); Mt. Godwin Austin (28,250 ft.); and the Kanchanjunga (28,146 ft.). From the Pamir Knot in the north west to the border of Assam, the mountain wall extends over a distance of about 1,500 miles. In the east between India and Burma, the mountain ranges are called by different names in different places, such as the Patkai and the Naga hills in the north-east and the Jaintia, Khasi and Garo hills in the south-west of Assam. The lower ranges form a sub-montane region with dense forest and an inhospitable climate.

Great Plain of Northern India.

Next comes the great Indo-Gangetic plain of Northern India which extends for about 1,500 miles from west to east. It is watered by the Ganga and its tributaries—Jamuna, Gomti, Gogra and Gandaka. A part of East Punjab is watered by the Ravi and Sutlej, tributories of the Indus.[1] The Brahmaputra

[1] Today, neither the whole of the Himalayan range nor the entire Northern Great Plain belongs to India, as large parts of both the Indus valley and the Brahmaputra valley are now included in Pakistan.

rises beyond the Himalayas and enters India near its eastern extremity. Flowing through Assam and East Bengal, it joins the Ganga before the latter falls into the Bay of Bengal. Broadly speaking, the western half of this plain may be described as dry and sandy, and the eastern half moist and water-logged, these features reaching their extreme points in the Great Desert on the west, and in Assam on the east. Southward, the peninsular plateau is marked off from the Indo-Gangetic Plain by a mass of hill ranges, varying from 15,000 ft. to 4,000 ft. in height. The prominent among these are Aravalli, Vindhya, Satpura, Maikal and Ajanta. The Peninsula is flanked on the one side by the Eastern Ghats with an average elevation of 1,500 feet and on the other by the Western Ghats with an average elevation of 3,000 ft., but rising at places to a maximum of 9,000 ft. The inner table-land is generally uneven and rocky and is seamed in the far south by hills, over 4,000 ft. high at places, among which the Nilgiris and the Cardamom hills are the more important. The plateau is traversed by the rivers Narmada and Tapti which fall into the Arabian Sea and the Mahanadi, Godavari, Krishna and Cauvery which drain into the Bay of Bengal.

Peninsular India.

2. GEOLOGICAL STRUCTURE

India, in the ancient geological ages, was very different from what we find her now. Geologists say that in the earliest period she was represented by the southern peninsula and was connected with Africa by land; while over the area where now exist the regions of the Punjab and Rajputana, the tides of a wide and shallow sea ebbed and flowed. Then followed a series of volcanic cataclysms and violent earthquakes which entirely changed her natural features. Finally, as the result of a slow process of geological evolution extending over thousands of years, she acquired her present shape and physical characteristics. These successive formations have left their marks on the physiography of India, and they may be grouped under six heads: (*a*) Achaean, (*b*) Vindhyan, (*c*) Gondwana, (*d*) Basaltic, (*e*) Tertiary and Cretaceous, and (*f*) Alluvial. As, however, a detailed examination of these formations is not necessary for our purpose, we shall content ourselves with a general descrip-

Geology of India: In ancient ages, in the modern age.

tion of the various kinds of soils[1] and minerals which owe their existence to them.

Soils: Alluvial.

The most extensive, and agriculturally the most important, tracts are the alluvial. They comprise the greater portions of Gujrat, Rajputana, East Punjab, Uttar Pradesh, West Bengal, extensive tracts in Assam, the Godavari, the Krishna and Tanjore districts of Madras, and strips extending along the eastern and western coasts of the peninsula. Alluvial soils also fringe the courses of the rivers in many other places.

Alluvial soils differ in different parts of the country in respect of their physical as well as their chemical properties. Generally speaking, in north-western India the soils are porous, dry, and, in some places, sandy. In West Bengal, the soils are more compact, less coarse, and moist. The soils in the deltas of Peninsular India are non-porous, clayey, and of dark colour.

Alluvial soils rich.

The alluvial soils are, on the whole rich in chemical properties. A large variety of *rabi* and *kharif* crops is grown on alluvial soils.

Trap soils.

Next in importance are the trap soils which cover the whole of the Deccan and considerable parts of the Madhya Pradesh, Hyderabad and Kathiawar. On the uplands and the slopes of hills the soils are porous and light, and are generally poor. The chief crops of these areas are millets and pulses. In the lowlands the soils are thicker, darker-coloured and more fertile; they are suited to the growth of cotton, wheat, millets and pulses.

Black cotton soils.

In portions of the Deccan trap area is found *regar*, or the black cotton soil,—so called from its dark colour and its suitability for the growth of cotton,—which possesses an almost inexhaustible fertility. The soil is the product of the decomposition of lavas. It is exceedingly compact and tenacious. It is highly retentive of moisture and rich in chemical properties. The kind of crops most suited to these areas is the *rabi*, but the *kharif* crops are also grown in many cases. Cotton, wheat, linseed and millets are the chief crops. Soils akin to the black

[1] In the Census of India, 1951, soils have been classified into: (*a*) Black soils, (*b*) Red soils including red loams and yellow earths, (*c*) Laterite and Lateritic soils, and (*d*) Alluvial soils; among other types (*i*) Mountain and hill soils, (*ii*) Desert soils, (*iii*) Saline and Alkaline soils, (*iv*) Peaty and other organic soils are mentioned.

cotton soil of the Deccan are found in the river valleys of a few other districts in Bombay, and also in parts of Madras.

Crystalline soils.

So much about the special varieties of soils. The rest of India may be described as the "crystalline soils tract". But these soils differ so much from one another in the different provinces in regard to their physical and chemical characteristics. The better kinds of such soils are suited to a great variety of crops, the most important being rice. The crystalline soils generally are deficient in the nitrates and phosphoric acid.

Common characteristics.

In the midst of these varying features one characteristic is found to be common to almost all soils, *viz.*, their comparative dryness. This absence of moisture in the land makes the supply of water an absolute necessity in Indian agriculture.

Mineral resources:

Such is the surface of the earth in India. It is of the greatest importance to the economic life of her people, whose material and moral welfare is indissolubly bound up with the soil. But of almost equal importance is what lies beneath the surface. The wealth of a nation in modern times corresponds, in a large measure, to its output of economic minerals.

The mineral wealth of India has not yet been fully ascertained; but judging from the amount of actual production, her mines and her possibilities as shown by investigations, we may say that India is rich in mineral resources, except in a number of important products. Many years ago, V. Ball,[1] in his *Economic Geology of India,* quoted the statement of Megasthenes that "India has underground numerous veins of all sorts of metals", and regarded it as absolutely true. The mineral resources are to be found over almost the whole of her area, but the distribution is very uneven.

The most important mining area is the Chota Nagpur Plateau also known as Gondwana,—comprising the region of South Bihar, Southwest Bengal and North Orissa. Most of the country's coal, iron, mica and copper comes from this region. While the major part of the coal is mined in the Jharia and Raniganj coal-fields it also occurs in the form of lignite in south-east Hyderabad,

[1] V. Ball, *Economic Geology*, p. xv. He went on to say that "India would be able, from within her own boundaries, to supply very nearly all the requirements, in so far as the mineral world is concerned, of a highly civilised community."

Southern Madhya Pradesh and along the Southeastern coast of Madras. Iron is found in Mysore and mica in northern Madras and central Rajasthan. Ilmenite and monazite, minerals of strategic importance are found in the sands along the Travancore coast. Magnesite is worked in the Chalk hills of Madras, gold at the Kolar gold fields in Mysore. Besides, bauxite, chromite, steatite, gypsum, building stone, salt, fire-clay, asbestos, corundum and Fuller's earth also occur in the country in varying degrees of abundance. India has large supplies of mica. Moreover, her supplies of manganese, ilmenite, monazite, iron and titanium are among the largest in the world. India's mineral resources have not, however, been fully explored. The country is deficient in petroleum, the only oil fields in the country are situated in Assam, their output being inconsiderable. Her supplies of non-ferrous metals, *e.g.*, lead, sulphur, silver, nickel, tin, zinc, copper, mercury, tungsten, molybdenum, platinum, graphite, asphalt, potash and the flourides are not adequate.[1]

3. CLIMATE

The climate of any place is determined by various factors, chief among these being its latitude, altitude, proximity to the sea, and position in regard to the prevailing winds. India is such a vast country that its parts differ widely from one another in respect of each of these factors, giving us sharp contrasts in climatic conditions.

Sharp contrasts in climate.

Excluding the Himalayas, which act as a climatic barrier in shutting out the cold winds of Central Asia and keeping within the borders of India the vapour-bearing winds of the south-west monsoon, the country may be divided, for meteorological purposes, into two parts: Peninsular India and Northern India.

The Peninsula,—variations slight.

The whole of the Peninsula falls within the Tropics and has a hot climate, the variations of temperature between summer and winter being small. The coasts have an even smaller range of temperature, and the atmosphere there is usually cloudy. These features are specially observable on the windward coasts, and they diminish with increasing distance from the sea.

[1] *India*, 1953.

Almost the whole of Northern India lies beyond the Tropic of Cancer, but here the climatic conditions are more complex. In technical language, the climate may be described as continental. The severity of heat or cold and the amount of moisture present in the air, however, differ greatly in the different provinces and during different seasons. In West Punjab we find bitter cold in winter and extreme heat in summer. As we travel eastward the severity both of heat and of cold steadily diminishes. In West Bengal and Assam, the winter is mild and the summer is moderately hot. Again, East Punjab and Rajputana are exceedingly dry, while the atmosphere of Assam is almost always saturated with moisture.

Northern India,—severe heat and extreme cold.

Altitude tempers the heat of low latitudes. Up on the hills, it is delightfully cool and refreshing even in midsummer, but beyond a certain point the excess of cold forbids human habitation.

Altitude.

These are the general features of the climate of India, which are, however, to a large extent disturbed by the periodical or monsoon winds, of which we shall speak presently.

The Indian year is divided into six seasons ; but, for economic purposes, it may be divided into two—winter and summer,—the latter being subdivided into dry summer (April, May and June) and wet summer (July, August and September). The seasons are of greatest importance in the economy of Indian life, as they are accompanied by an alternation of the meteorological conditions which produces the most momentous results. In winter, dry land winds prevail over the greater part of India, while in summer we have winds of oceanic origin, with high humidity, much cloud and frequent rain. This alternation is due to a difference in temperature and atmospheric pressure in different regions.

The seasons: Winter, Dry summer and rainy summer.

The whole of India lies within the belt of the northern trade-winds. Under normal conditions, therefore, we should expect the wind to blow from the north-east throughout the year. As a matter of fact, however, the north-east wind blows during only one-half of the year. During the other half, the wind movement is modified because of the presence of the continent of Asia near the equator. This disturbance of the air current is due to the fact that land and water differ greatly in their behaviour regarding the absorption and radiation of heat. In April and May,

The monsoons.

the plains of Northern India become very much hotter than the water of the Indian Ocean near the Equator ; and, consequently, the pressure becomes much lower in the former region than over the Equator. The heated air rises and the cooler air from near the Equator rushes in to take its place. Thus an air-current is established in the lower strata of the atmosphere from the south towards the north. Just at this time, south of the Equator, the wind blows as a south-east trade-wind. As this wind reaches the Equator, it finds the barometric pressure higher there than in Northern India. It then swirls rounds and blows as a south-west wind, accelerating the air-movement which has already begun from the Equator towards India. This is the South-West monsoon. Being of oceanic origin, the wind is laden with mois-tutre ; and as the clouds are driven inland by storms, they drench the parched lands of India with rain. The South-West monsoon usually establishes itself in Bombay and West-Bengal about the middle of June, and by the end of the month it extends over practically the whole of Northern India.

South-West monsoon.

Two currents: Arabian Sea Current, Bay of Bengal current.

The South-West monsoon reachs India in two currents,—the Arabian Sea current and the Bay of Bengal current. The former gives rain to Bombay, East Punjab, and a part of the Central Provinces, and the latter to the rest of India including West Bengal. India gets nearly 90 per cent. of her annual rainfall from the South-West monsoon. The total rainfall of the monsoon season (June to September) is 100″ over parts of the west coast ; the amount diminishes east of the Ghats becoming 20″ to 30″ over a large part of the centre and east of the Peninsula. It is over 100″ in the north Assam Valley and diminishes steadily westward and is less than 5″ in parts of Rajasthan. This mon-soon usually continues till September.[1]

North-East monsoon.

In October and November, the temprature over the land in India becomes lower than that over the sea near the Equator ; consequently, the barometric pressure rises, and winds begin to blow towards the Equator. This is often alluded to as the North-East monsoon but it is, in reality, the retreating South-

[1] "With the advent of South-west monsoon rains, there is a rapid fall in the maximum temperature in the north of the Peninsula and the central parts of the country ; as the monsoon rainfall penetrates further inland in the latter half of June and early July, there is a progressive fall in maximum temperature in north-west India." Census, 1951.

West monsoon. Being of land origin, it does not contain much moisture, and is, therefore, called the dry monsoon, in contradistinction to the South-West monsoon which is wet. The little moisture which it contains is really the residue left by the South-West monsoon, which has been prevented by the Himalayas from passing out of India. But the north-east trade-wind picks up a considerable amount of moisture during its passage over the Bay of Bengal, and gives rain to the south-eastern districts of Madras. This north-east wind is thus of great economic importance to Madras, although the total quantity of rain which India gets from it is rather small. Some amount of rain also falls in East Punjab during the winter months, which is probably due to local storms.

The amount of rain that falls in India varies from year to year. It depends on the force and direction of the air-current. The quantity which any particular part of the country receives depends on the configuration of the surface of the land, on its situation with reference to the winds, and on any other factor which causes reduction in the temperature of the air. For instance, while a large amount of rain falls on the west coast of the peninsula, the table-land of the Deccan and Southern India gets very little rain from the South-West monsoon, the Western Ghats acting as a barrier to the passage of the vapour-bearing winds. Where, on the other hand, no such obstacle is offered to the passage of the monsoon current, the clouds travel far into the interior of the countrty. The south-east coast of Madras does not receive much rain from the South-West monsoon, for it does not lie in the path of the winds, their direction being north-easterly. Again, any cause which cools the air-current leads to a condensation of water-vapour and to the fall of rain. Rainfall is abundant on the mountains and in forest tracts, while it is scarce in deserts where the atmosphere, being hot, is capable of holding in suspension a large amount of water-vapour. According to the Census of 1951 the average annual rainfall is 42″. But the normal rainfall in the Cherapunji hills is 460″, while in some parts of Rajputana it is as low as 5″.

Amount of rain determined by— Situation. Height. Moisture.

The success or failure of the crops is determined by the quantity, distribution, and time of occurrence of the monsoon rains. In European countries, the variations in rainfall may increase or diminish the abundance of a crop, but in India they produce

Importance of rainfall.

far greater consequences. In one year rainfall may be so abundant that harvests are plentiful, in another an almost total failure of the rains may lead to a severe famine involving the loss of thousands of lives. But it is not agriculture alone that is affected by the monsoons; trade and commerce are largely dependent upon them, while the framing of the Annual Budget of the Government of India has been described by several Finance Members as a "gamble in rain." In fact, the prosperity of the country depends almost entirely on the monsoons; and natural water-supply is the chief factor determining the density of population and the state of civilisation in any particular part of India.

Influence of climate on physique and character.

The climate of the country affects not only the productivity of the land, but also the physique and character of the people. A hot and moist climate tends to cause much fatigue after even moderate exertion and a general ill-defined condition of debility. It thus produces a disinclination to hard work. Various kinds of tropical diseases also render the body weak and reduce the span of life. The cumulative effect of all this on the people is to produce a lack of the energy and strength needed to develop the best in themselves and in the resources of the country.

4. FLORA AND FAUNA

Vegetable life.

The geographical position of the country, its climatic and geological conditions have an important bearing on the vegetable and animal life of India. The large extent of its area and a great variety in its physical features and climate, combined with the natural fertility of the soil, enable the country to produce almost every kind of vegetable life. In fact, the flora of India is more varied than that of any other area of the same extent in Asia, if not in the world. Here we find not only the tropical and sub-tropical products, but the products of the temperate zone as well. The most important among the tropical products obtained here are: rice, coffee, millet, tapioca, sugar-cane, cinchona, jute, spices, rubber and gutta-percha; pineapple, bananas and other kinds of tropical fruits. The chief sub-tropical products grown are: cotton, tobacco, opium and tea. Of the products of the temperate zone, the following may be mentioned as the more important: wheat, maize, barley, pulses, potatoes, hemp and

Tropical, sub-tropical, and temperate-zone products.

flax, and various kinds of fruits. Besides these, many miscellaneous articles are found, such as a large variety of oil-seeds, gums, timber and indigo.

Animal life.

Animals are of great use for purposes of cultivation as well as of transport. But India at the present moment is very deficient in good live-stock. Being imperfectly fed and housed in insanitary sheds, cattle are constantly liable to diseases[1] of various sorts; and the question of breeding does not receive the attention which it should. This paucity of good cattle is a great drawback in the improvement of agriculture. Cattle-rearing is difficult in those parts of the country in which rainfall is large, because the rain-water washes away the salient constituents which are essential to the health of the cattle. There the animals do not grow up to a size, nor are they strong. For this reason, horses are rare in Lower Bengal, the Carnatic and Coromandel coasts. In the dry parts, on the other hand, very good horses are found. The most important of the Indian animals are bullocks, which are used almost everywhere for the plough as well as for carrying loads and drawing water. Buffaloes also are used for similar purposes in many parts. The cow and the she-buffalo are highly useful in almost every part of the country, as milk and *ghee* are among the chief articles of *nutritious* food consumed by the people. Sheep and goats are found in almost every province. The donkey is a very useful beast of burden, especially in Northern India. The camel is useful in the sandier parts of the country. The region in which good cattle is reared includes East Punjab, Kashmir, Rajputana and Kathiawar, where rainfall is not excessive.

Animal products.

India's total live-stock comprising 260,265,000 heads is about a seventh of the world's livestock population excluding that of U.S.S.R., cattle accounting for two-thirds of this number. The quality of livestock is poor, generally speaking. The chief live-stock and poultry products such as milk, butter, ghee, meat and eggs are consumed in the country while some hides, skins, bones, horns, ivory, wool and wax are exported.

[1] "Cattle disease", wrote the Agricultural Adviser, many years ago, "is so serious an affliction that it ranks in many parts of India as a scourge, and is a direct obstacle to the amelioration of the condition of the cultivator."

Aquatic products.

India's coastal and inland fisheries can be a source of great wealth ; pearling fisheries in the Gulf of Mannar are also important, but these opportunities have not been fully made use of so far.

5. FACILITIES OF COMMUNICATION

Communication easy in Northern India,

The flatness of the surface makes communication easy in the plains of Northern India. Roads and railways can be constructed here without much difficulty. The Ganga, with its numerous tributaries and branches, furnishes some thousands of miles of waterways, which are of immense economic importance. The Brahmaputra also in its lower course affords some facilities of transport. Some of the tributaries of the Indus are navigable by small boats and by steamers during a part of the year. In the southern half of the country, the nature of the surface has placed great impediments in the way of communication. Roads are not easy of construction, and railways have become possible only in certain parts of the peninsula, and even there only with the aid of much engineering skill. In these regions rivers also are not quite so useful as waterways, many of them being too impetuous in times of flood and too scantily supplied with water at other times.

but difficult in the Peninsula.

The sea, the great highway.

The long sea-board of India offers facilities of communication between the coast districts of the country. But the number of natural harbours is not large, and during the monsoons the Indian Ocean becomes exceedingly rough. In spite of these disadvantages, the sea has now become a natural highway not only connecting the different parts of the country but also uniting India with the rest of the world.

Natural advantages many ; disadvantages few.

We have now finished our brief survey of the physical environment in India and its relation to the economic aspect of the life of her people. We have noted the many natural advantages which the country enjoys and the few difficulties it labours under. It is necessary to recognise the dependence of the people on nature ; but it would be a mistake to suppose that this dependence is absolute. Man can, in a large measure, modify his environment. And the people of India can, by their intelligence, knowledge and enterprise, control the forces of nature to a considerable extent.

Dependence on nature not absolute.

CHAPTER III

THE SOCIAL STRUCTURE

THE PEOPLE

Nature and Man.

NATURE and man are the two chief agents in the production of wealth. In the last chapter we described the part played by nature in the economy of Indian life. The present chapter will be devoted to a brief discussion of the human factor.

Population.

According to the census of 1941, the total population of undivided India was 388,800,000. With an area of about half that of the U.S.A., India had a population three times as large. But since Partition in 1947, two heavily populated areas, East Bengal and West Punjab, no longer form parts of India. According to the census of 1951 the population of the Indian Union is 356,829,485.[1]

Density.

The average density of population in India is 312 per square mile, as compared to 579 in Japan, 536 in the U.K., 193 in France, 127 in Europe, 123 in China, 108 in Indonesia, 50 in the U.S.A., 23 in the U.S.S.R. and 15 in Brazil.[2] But the distribution of the people in India is not even throughout the country. The density of pouulation depends on several factors, the most important of which are rainfall, the climate, the soil, the configuration of the surface, and the state of civilisation. As a rule, the population is the densest in those parts in which there is an abundant supply of water, either natural or artificial, or in other words, where the primary requirements of human life are satisfied with the greatest ease. But there are exceptions. The greatest density is to be found in the Urban State of Delhi which has an average density of over 3,000 persons per sq. mile. Travancore-Cochin claims the second place with 1,015 to the square mile, followed by West Bengal, Bihar and U.P. with 806, 572 and 558 respectively, the lowest being 10 in the Andaman and Nicobar Islands.

Local distribution unequal.

Population mainly rural.

The people for the most part live in villages. Only 62 millions (17·3 per cent. of the population) are found in towns, compared

[1] To this should be added 4·41 millions, the estimated population of Jammu and Kashmir and ·56 millions of Part B Tribal Areas of Assam.

[2] *India*, 1953, p. 6.

with 49 per cent. in France, 53·7 per cent. in Canada, 56·2 per cent. in the U.S.A., and 80 per cent. in England and Wales. There has been an increase of 3·4 per cent. during the last decade. The proportion of the urban to the total population ranges from 34 per cent. in Bombay to only 4 per cent. in Orissa among Part A States. There are only 73 towns with a population of over 100,000. But the number of villages is 558,089. The reason for this is to be found in the fact that the people are, in the main, agricultural. There is, however, a slow but steady tendency towards urbanisation.

Towns comparatively few.

Division into sexes.

The division of the people into sexes is important from the economic standpoint, for a very large proportion of women in India can hardly be regarded as producers of wealth. India has 947 females for every 1,000 males. The number of males exceeds that of the females in all the States except Orissa, Manipur, Madras, Travancore-Cochin and Kutch. The minimum numbers of women are found in the Andaman and Nicobar Islands (625 per 1,000 males) and in Delhi (768 per 1,000 males). In Calcutta the statistics show, as in most other towns, a grave disproportion between the two sexes.

Distribution by age.

Another important fact about population is distribution according to age. The old and the very young, who constitute 9·3 per cent. and 38·3 per cent. of the total population respectively, are consumers of wealth, but not producers. Roughly speaking, the limits for active work in India may be put at the ages of 15 and 54. The number of persons between these limits is 534 per 1,000 of the population. If we deduct from this the infirm and sick persons, as well as a large proportion of women who, owing to the *purda* system and other social customs, do not contribute to the economic life of the people in a direct way, we get the total number of able-bodied persons who are fit to participate in the production of wealth, or, in other words, who form the labour-force of the country.

Health.

The most important factor to be considered in dealing with the human element in production is the health of the people. The efficiency of labour is greatly impaired by general ill-health in most parts of the country. This is due to unfavourable climatic conditions, insufficient nutrition, want of pure water, insanitary surroundings, artificial modes of living, and unhealthy social customs. All these factors render the body

weak and less able to resist disease. To these must be added the epidemics which sweep over the country every now and then, sometimes causing great havoc and devastation. Finally, the influence of heredity helps to perpetuate the evil effects, unless checked by positive deterrents.

Distribution by occupation.

The economic condition of the people depends largely on how they earn their living; hence the great importance of the question of distribution by occupation. The most noteworthy fact in this connection is that 70 per cent. of the population is supported by agriculture and 30 per cent. live by non-agricultural occupations. Out of every 100 persons including their dependents, 47 are mainly peasant proprietors, 9 mainly tenants, 13 landless labourers, a landlord or a rentier, while 10 are engaged in industries or other non-agricultural production, 6 in commerce, 2 in transport and 12 in the services and miscellaneous professions.

Of all these classes, the landless labourers constitute the lowest stratum of the economic structure. Their total number in India is 4·5 millions and they form 18 per cent. of the agricultural population. There are, however, great variations in the distribution of landless labourers among the States, the highest being in Travancore-Cochin and the lowest in the mountainous States of Himachal Pradesh, Manipur and Sikkim. The total number of female employees, according to the latest Census, is 1,880,417.

Dynamics of population.

So much about what may be called the statics of the population. But the dynamics of the population are also very important. Changes are effected by three factors: birth, death and migration. We shall briefly notice each of these.

Marriage.

Birth depends on marriage and fecundity. In India, marriage may be said to be almost universal. Religion and social custom used, until recently, to favour the marriage of persons, particularly of girls, at an early age. But legislative measures have substantially raised the marriageable age-limit during the last three decades. The hypothesis that marriages increase with prosperity and decrease with adversity does not always hold good in India. Improvident marriages are more frequent among the lower than among the higher classes. The proportion of celibates is much lower in India than in the West. On the other hand, custom discourages the marriage of widows among the Hindus, thus

leading to a higher proportion of widows here than in many other countries. The proportion of widowers also is a little higher. The fecundity of marriage among the poorer classes is greater than among the middle and higher classes. This difference is due perhaps to the absence of prudential considerations among the less advanced sections of the community. The average crude birth-rate for India, according to the Census of 1951, is 40 per thousand per annum, as compared with 16 in U.K. and 24 in U.S.A. It may be said in a general way that in India women begin to bear children at a comparatively early age and also cease rather early.

Birth-rate.

Death-rate.

The increase or decrease of population depends not only upon the birth-rate, but also upon the death-rate. In India 27 persons die annually out of every 1,000 persons, whereas in U.K. and U.S. the rates are 12 and 9·6 respectively. Infant mortality rate is diminishing, though it is still much higher than in the more advanced countries. During the decade ending 1931, it was 176 infant deaths per 1,000 births whereas it was 164 during the next decade and 152 during the decade ending 1951. The high rate of mortality in India is due to several causes,—famines, epidemics, want of proper food and good drinking water, insanitary conditions, and the impaired vitality caused by early marriage.[1] In bad seasons the population usually decreases; while in good seasons there is an increase in population. The mortality in towns is a little higher than in the country.

Infant mortality.

Actuarial calculations of duration of life.

According to actuarial calculations, the estimated expectations for male, and also for female lives, for all India are materially below those deduced from English lives at all ages. Up till 1911, the estimated expectations showed a gradually declining tendency; the estimate made in later Censuses, however, indicated a moderate increase. The expectation of life at birth increased from 26 years and 11 months during 1921-30 to 32

[1] The Famine Commissioners of 1898 said in their Report: "Epidemics may sweep them off by tens of thousands without attracting attention, because these agencies are incessantly at work. Famine, which intensifies their activity, is more conspicuous from its less regular occurrence, but it is really only one, and perhaps not the most deadly, of numerous influences by which at present human life is cut short, and which can be effectually counteracted by the general advance of society in wealth, knowledge, and material resources." (p. 29).

years and 5 months during 1941-50. The expectation of life at age 10 is 59 to 60 in England and Wales, Australia and New Zealand. It is 56 in U.S.A., about 50 in Japan and 47 in Egypt. In India the expectation is 39 at present. Thus we continue to retain the unpleasant distinction of having the lowest expectation of life among all the peoples for whom figures are available. This serious condition of things demands the immediate attention of the State as well as of the educated community.[1]

Migration—internal.

Migration is another factor which affects the size of the population. Migration is of two kinds: internal and external. Internal migration, again, may be casual, temporary, periodic, semi-permanent, or permanent. Casual or temporary movement of the people from one province or district to another goes on continually. For instance, the factory hands in the Calcutta mills are mostly drawn from up-country. Periodic movements are due to the seasonal demand for labour. Semi-permanent movements also are not infrequent. But the permanent type of emigration, or colonisation, takes place very rarely. The conservative habits of the people, their love of home, their poverty, their lack of knowledge of labour conditions in other parts, all tend to keep them tied to their native villages. One important instance of a permanent movement, during comparatively recent years, has been the migration of a large number of people to the Canal Colonies in the Punjab. Assam gains most on the whole from interprovincial migration. West Bengal and Bombay also show substantial figures of net gain. Among the provinces that lose population on account of internal migration in normal times, Bihar ranks first. Orissa, Uttar Pradesh and Madras also send away large numbers of inhabitants to other parts of India. After the Partition of 1947 migrations on extensive scales took place to and from West Pakistan and India, while one-sided movements of population, sometimes on a large and at other times on a small scales are still continuing between Eastern Pakistan and India.

external.

External migration may take the form either of immigration or of emigration. As for the former, there are in India

[1] The estimated values for male lives and female lives were in 1881 respectively 23·67 and 25·58; in 1891—24·59 and 25·54; in 1901—23·63 and 23·96; in 1911—22·59 and 23·31.

altogether 8½ lakh persons of foreign birth. Emigration serves as an outlet for the surplus population of the country; but the actual total number of emigrants from India is small at present. The total population of Indians overseas may roughly be estimated at about 4 millions. The countries in which they number more than a lakh are Ceylon (9⅔ lakhs), Burma (8¾ lakhs), Malaya and Singapore (nearly 8 lakhs), South Africa (3·85 lakhs), Trinidad and Tobago, Mauritius, British Guiana, Fiji islands and Kenya. In Dutch Guiana and Indonesia, their number is about 70,000 and 40,000 respectively.

immigration.

from occupation to occupation.

The caste-system and social customs used in olden days to prevent the movement of labour from occupation to occupation. These influences, however, have been losing their force gradually.

Increase of population.

During the decennium, ending 1951, the population increased by 42 millions, showing a mean decennial growth rate of 12·5 and a rise by 13·4 per cent as compared with the 1941 figures. Except for the Punjab and the Andaman and Nicobar Islands, which registered a decline in the mean decennial rate by 0·5 and 8·6 respectively, all the States showed an increase, the highest being in Delhi (62·1) followed by Coorg (30·5). In most States population increased at a rate varying between 10 and 22, the exceptions being Bihar, Orissa, Madhya Pradesh,[1] Bhopal, Vindhya Pradesh and PEPSU, where the increase was below 10, the rate being only 2·6 for PEPSU, the lowest recorded.

Now the question arises whether the population is increasing too fast. There are some thinkers who are alarmed at the rate of increase, and who assert that the pressure of population on the means of subsistence is one of the chief causes of the extreme poverty of the people and who predict that this pressure, if allowed to grow unchecked, will in the near future greatly intensify misery in the country. While this view is worthy of serious consideration, there are other aspects of the question which cannot be entirely ignored. As Prof. Seligman points out, the problem of population is not one of mere size,

[1] 'The emigration of Indian labour dates back to the beginning of the 19th century when they went to the Straits Settlements in large numbers to work on the plantations. Till the passing of the first Emigration Act in 1837, however, the emigration was unregulated. This Act was replaced by the Indian Emigration Act of 1922 which was amended in 1938 and again in 1940.'

but of efficient production and equitable distribution. The law of diminishing returns applies with full force only to agriculture, and the real antithesis is not between population and food, but between population and wealth.

CHAPTER IV

THE SOCIAL STRUCTURE—(*Continued*)

SPECIAL FEATURES OF INDIAN SOCIETY

1. THE CASTE-SYSTEM

THE most striking feature in the structure of Hindu society is what is known as the caste-system. It is a very ancient institution, but when and how it first appeared it is impossible to say with any degree of certainty.

Origin.

We find it vaguely alluded to in a few passages of the Vedas, and recognised in Manu's code, in the great Epics and in the Purans. The original distinction was perhaps based on colour, the Aryans being white and the non-Aryans brown or black. Subsequent distinction must have arisen from differences in respect of qualities and occupations.[1]

Essential feature.

The essential feature of the system is that birth determines irrevocably the whole course of a man's social and domestic relations. Mahomedanism, in its pure form, is opposed to the system of a hierarchy of castes.

Caste-tendencies among Mahomedans.

Senart's views.

[1] In the Bhagavat Gita, Sreekrishna, the incarnation of the Deity, says, "I have created the four castes according to the qualities and occupations of their respective members." M. Senart is perhaps right in saying: "Caste is the normal development of ancient Aryan institutions, which assumed this form in the struggle to adapt themselves to the conditions with which they came into contact in India." It appears quite probable that, being surrounded on all sides by hostile residents, the Aryans found it necessary to set apart the hardiest portion of the population for the exclusive occupations of war and government. Thus perhaps was formed the Kshatriya caste. Then, as engagement in warfare was found incompatible with the performance of religious ceremonies, the acquisition of learning and the imparting of education, the most intellectual and selfless among the people formed themselves into a separate class. Thirdly, as the importance of agriculture, industry and trade was realised more and more with the growth of civilisation, a third category began to devote its energies exclusively to those occupations, forming the Vaisya caste; and lastly, the less cultural among the Aryans, together with the conquered tribes, formed the Sudra caste. In course of time, subdivisions of these original castes were made, and many new ones came into existence. In the earlier stages of national development, as M. Senart points out, the principle underlying the social structure of the Greeks and the Romans were the same as those of the Hindus. In India, however, the distinctions became rigid and stereotyped; in Europe, society was soon able to throw off the shackles.

The chief economic significance of the caste-system is that it fixes the supply of any kind of labour. The scope given to the play of competition thus becomes limited, and consequently the law of demand and supply is rendered either inoperative or oppressive in its operation. When any change takes place in the economic world, both industry and labour are unable to adjust themselves to the altered circumstances and suffer in consequence. Wages and prices have very often to be regulated by custom or some other artificial means. Further, the institution of caste is ill-suited to large-scale production, in which minute sub-division of labour is essential and which requires the supply of any kind of labour to immediately respond to the demand for it. Under the caste-system people lose their adaptability to changed circumstances. The system, moreover, has its influence on the character of the individual. Denying, as it does, equal opportunities to all, it often becomes the source of grave injustice to large sections of society.

Economic significance. Limitation of competition. Unsuited to large-scale production. Loss of adaptability.

The result is a great economic loss. But, on the other hand, much economic advantage ensues from the fact that every man inherits a certain amount of skill from his parents and unconsciously imbibes much of the technical knowledge from the atmosphere of the particular profession in which he is brought up. Another merit of the system is that, by limiting the influence of competition, it stands forth as the protector of the weak. Everyone finds a place in the economic organisation—no one is absolutely helpless. Whether the merits of the system are greater than its defects, or *vice versa*, is not a question for the economist alone to answer. But the prevailing opinion seems to be that the advantages are far outweighed by the disadvantages.

Inherited skill. Caste the protector of the weak. Balance of merits and defects.

Changed conditions have, however, gradually led to a substantial modification of the system. Occupation is now not necessarily the indication of a man's caste. Members of different castes are nowadays to be found in almost every occupation. Education, better communications, and the economic struggle have combined to remove caste differences in many instances. Independent India has made the practice of untouchability a punishable offence. The public schools are open to untouchables. The Government of India and the State Governments do not take caste into consideration when making

Caste-system modified. Rigidity being relaxed.

recruitment to the services. The present Constitution of India has gone so far as to assure the employment of a certain percentage of the scheduled castes in the services. In its preamble, the Constitution guarantees "equality of status and opportunity" to all, and in the section dealing with the Fundamental Rights it specifically provides that the State shall not discriminate against any citizen on grounds only of religion, race or caste. Equality before the law is assured to all. Although the caste-system is not likely to disappear completely very soon, its rigidity is being gradually reduced, and its anti-economic and anti-social features are being speedily eliminated.

The caste-guild.

An important institution connected with the caste-system was the caste-guild of ancient and mediaeval times. Each caste or sub-caste was, to some extent, also a trade-guild. It used to insist on the proper training of the youth of its craft, to regulate wages, to deal with trade delinquents, and to supply courts of arbitration for the settlement of disputes. Its chief objects were to regulate competition among its own members and to uphold the interests of the body in its disputes with other craftsmen. The decisions of the guild were enforced by social penalties or fines. The guild encouraged efficiency by means of rewards and discouraged inefficiency by social disfavour. It also exercised the functions of a mutual assurance society; and by finding employment for the unemployed and helping the poor and the needy, the guild-system avoided the necessity of a poor-law.

Its functions.

Its objects.

Caste-guilds compared with mediaeval guilds of Europe.

The caste-guilds of India were, in many respects, similar to the guilds of Mediaevial Europe. But there were many points of difference. These latter were not endogamous, and there was no bar to the admission into the circle of outsiders who had learnt the business. The common occupation was a real tie and a source of strength, not a symbol of disunion in the different parts of society as in the case of the Hindu guilds.

Their importance.

There was a time when these caste-guilds were of the greatest economic importance. By their excellent organisation they largely promoted the production of wealth. The famous fabrics of rural India were developed under the supervision of these guilds. Caste-guilds as such are now to be met with only in a

few places in India.[1] But even where they exist they do not exercise anything like their old influence. There are, however, trade- or craft-guilds in almost every part of India, the objects of which are similar to those of the caste-guilds of old, but which are rarely strong enough to perform their duties in a proper manner. The membership is not necessarily confined to one caste. The bond of union is not very strong, and these craft-guilds lack efficiency of organisation.

Modern trade-guilds.

The Muslims of India also have their trade-guilds, which are organised on principles similar to those of the Hindus. In some trades the guilds are well organised, but in most of these they are not strong enough to wield considerable influence over the members.

Mahomedan guilds.

2. THE JOINT-FAMILY

In India, the unit of society is not the individual, but the family. Among the Hindus, this family includes not only the husband, the wife and the children, but many other members in addition. The essential feature of the system is that the consumption of goods is common, and every member of a family shares in the prosperity or adversity of every other member.

Family the unit of society.

Consumption in common.

The Hindu law of property is essentially different from the laws which regulate property in the West. In Europe and America ownership, as a rule, is single, independent, and unrestricted. In India, corporate property was, until recently, the rule, and absolute unrestricted ownership was found only in a few parts of the country and in rare instances in the rest. The law in this respect was based on the joint-family system, which was, and to some extent still is, the backbone of Hindu society.[2]

Joint property.

[1] The mention of guilds in Kautilya's *Arthasastra* proves that they existed long before the commencement of the Christian era.

[2] According to the former, ancestral property is owned and enjoyed by the members of a family as a whole, the share of each remaining unascertained until and unless there is a regular partition. The person who is the head of the family for the time being is only the manager and has no right to sell or dispose of it in any way, except for the benefit of the family or for legal necessity. Dayabhaga, however, gives greater powers to the head of the family, and, according to recent decisions, he is considered as the absolute owner of the property, having full rights of disposal over it. As for self-acquired property, both the schools give the owner full rights to it. Mayne, *Hindu Law*.

Schools of law: Mitakshara and Dayabhaga.

There is a great deal of divergence in the doctrines of the various schools of Hindu law. The Mitakshara school, which governs the greater part of Hindu society outside Bengal, is more rigorous in its regard for the security of the joint-family than the Dayabhaga school which governs Bengal proper.

Merits of the joint-family system.

The joint-family system has existed in India for ages, but is now in a state of disintegration. Looked at from the economic standpoint, the system appears to have merits as well as defects. The chief merit lies in the fact that almost everyone can be sure of a bare subsistence, which is the first condition of economic advancement. On the other hand, self-reliance—the great virtue without which no economic progress is possible—is discouraged. Economic freedom, which is such an important factor in the production of wealth, is also curtailed.

Defects.

Gradual disruption of joint-family system.

Like the caste-system, the joint-family is gradually losing its strength. The economic struggle has come in as a disruptive factor. The village artisans are no longer able to get a living from their traditional occupations. The development of means of communication have also been effective in breaking up the joint families by making internal migration easier. Recent Parliamentary legislation has greatly helped the break-up of the system.

3. THE LAWS OF SUCCESSION

Succession: among Hindus;

There is no such thing as succession, properly so-called, in an undivided Hindu family governed by the Mitakshara law. The whole body of such a family constitutes a sort of corporation, and, on the death of any member, the property devolves on the remaining members by survivorship and not by succession. Succession takes place only when property is separate. Under the Dayabhaga law, however, succession takes place even to the joint property. The whole of the property passes to the male children, when there are any. If there be no male children it passes to the next of kin.

No primogeniture.

The law of primogeniture does not exist in India, except among the ruling chiefs or in a few families where there is a special custom to that effect. Thus, according to the Hindu as well as the Mahomedan law of inheritance, property, whether real or personal, is divided among a number of persons. The result of such division is that it prevents the accumulation of

Division of property: its

wealth in a few hands and enables a considerable-number of persons to enjoy moderate wealth. It minimises the distance between the high and the low, and helps the formation of a large middle class. It fosters the growth of self-respect and develops habits of self-help and self-reliance among the people. On the other hand, it prevents concentration of capital and stands in the way of large-scale production.

advantages; disadvantages.

Recently, fundamental changes have been made by Parliament in the laws of succession, particularly in the matter of enlarging the rights of women to property. These are likely to modify substantially the existing social structure of the country.

Hindu Law amended.

4. THE VILLAGE SYSTEM

The great body of the people of India is rural. This is so, not because the people do not know the art of building towns, but because the occupation of agriculture makes it necessary for the people to live in villages.

Population largely rural.

From the very earliest times, the village has always been the unit of administration in India. Here, as in other countries of old, the people gathered together in villages for better protection and mutual assistance. The peculiarity of India, however, lies in the fact that a system of village communities developed in many parts of the country, which lasted many hundreds of years. Sir Charles Metcalfe gave an excellent description of these organisations, from which the following lines are worth quoting: "The village communities are little republics,[1] having nearly everything they can want within themselves, and almost independent of foreign relations. They seem to last where nothing else lasts. Dynasty after dynasty tumbles down; revolution succeeds to revolution; Hindu, Pathan, Mogul, Mahratta, Sikh, English, are all masters in turn, but the village community remains the same."[2]

Village communities.

Sir-Charles Metcalfe's view.

[1] In Bombay, it was reported in 1819 that "these communities contain in miniature all the materials of a State within themselves, and are almost sufficient to protect their members if all other governments were withdrawn" Elphinstone's *Report on the Territories acquired from the Peshwa*, 1819).

[2] Metcalfe added: "This union of the village communities, each one forming a separate little State in itself, has, I conceive, contributed more than any other cause to the preservation of the people of India through all the revolutions and changes which they have suffered, and

Although the system of village-communities is now in a state of decay, it has not yet been entirely overthrown. In Northern India, these villages are usually walled in, and the people live within them as compact groups. Each village has its arable land and grazing field just outside the limits of the inhabited area. This land, together with the dwelling-houses, is technically known as the village. Its constitution and ownership may change, but the village itself as a local feature always remains the same.

The village.

The original cause of the foundation of village communities is to be found in the co-operation of a number of persons for clearing the jungle and for defence against wild animals and neighbouring enemies. But the bonds which held together the village landholders were not merely physical, but also social and economic.

Origin. *The bond.*

There are two main types of villages—the Raiyatwari and the Landlord- or Joint-village. In the first, the village contains a number of cultivating holders, who usually till the land themselves, but sometimes employ tenants. These holdings are separate units—they are not shares of a whole belonging to them all. The several holders are distinct in interest, and the only bonds which unite them are locality, common subjection to the headman, and common services of the village artisans and menials. This form of village exists in Madras, Bombay, Central India, and Berar; it also originally existed in the Central Provinces and parts of Bengal.

Two kinds: Raiyatwari.

In the Landlord-village, the holdings of the cultivating landholders are not separate units; they are parts of the entire area of the village which is owned by an individual or a family having the claim to be superior to the cultivating landholders. The proprietory body[1] is of common descent and may consist of a large number of co-sharers. This co-sharing body rarely cultivates the land itself; more often, the land is cultivated by

Landlord village.

is in a high degree conducive to their happiness, and to the enjoyment of a great portion of freedom and independence." In regard to Madras, the Fifth Report, 1812, says: "Under this simple form of Municipal Government the inhabitants of the country have lived from time immemorial. The inhabitants give themselves no trouble about the breaking up and divisions of Kingdoms."

[1] Sir Henry Maine thinks that property in land, as it is understood in Europe, is a comparatively modern institution; but Baden-Powell, a great authority on the subject, contests this view.

a subordinate body of tenants who pay rent to the landlord (or body of landlords).

Principles of sharing.

There are three principles according to which land is divided among the co-sharers: (*a*) The ancestral or family-share system (known as the *pattidari* system), by which each member of the co-sharing body takes the fractions of the whole which his place in the family "tree" or genealogical table points out; (*b*) special customary system of sharing, *e.g.*, sharing in equal artificial lots (called the *bhaiachara* system), sharing by ploughs, or with reference to shares in water, or shares in wells; (*c*) the system of *de facto* holdings, by which what each now holds is regarded as the measure of his interest. The Landlord-village system prevails in Uttar Pradesh and East Punjab.

Village officers. The Headman: his functions in Raiyatwari,

In each of the Raiyatwari villages there is an official headman (called *patel, mandal,* or *reddi*). His office has always been regarded as of great importance. He often exercises petty magisterial powers, and also decides petty suits either as an arbitrator or as a civil judge. He also performs various duties of a general character, concerning the well-being of the village. But he has no responsibility for the revenue, except that of his own holding. He holds a hereditary position, and is remunerated by the grant of a plot of land. In the Landlord-villages the business of the village is entrusted to a *punchayet* or council of village heads, the leading man among them being selected as the representative of the body and the headman. He is called the *lumbardar,* and is directly responsible for the revenue of the village.

and Landlord-village.

The *patwari*: his duties.

Another officer of the village is the *patwari* or accountant who has to keep the village accounts of revenue payment by the proprietors or co-sharers, and outstanding balances; or rent payments by tenants, and of items chargeable to the common expenditure of the village. He has to take note of all changes that occur in the ownership of land. Lastly, he has to report at once to the *tahsil* any unusual occurrence in the village. Besides these officers, there is a watchman or *chowkidar* in each village, and, in some cases, one or two other petty officers.

Village economy.

Until recently, each village constituted an economic unit, of which the chief feature was its self-sufficiency.[1] It used to be,

[1] *Vide* Baden-Powell, *Land Revenue Systems of India* and Sir T. Morison, *Industrial Organisation of an Indian Province.* In regard to

to a large extent, independent of relations with the outside world, so far as its internal economy was concerned, for within its own boundaries the village possessed all the factors which were requisite for the supply of its few wants.

Sense of unity.

The different classes in the village were conscious of the fact that each was dependent on the others, and that the interests of each class were bound up with those of the rest. Thus there grew up a strong sense of unity and solidarity which helped to preserve the integrity of the village. The villager lived a simple, and in years of good harvest, a contended life. There was very little wealth in the village, but the evils of capitalism were also absent. The cultivator or artisan knew little of the comforts and luxuries of urban life, and did not miss them. He thought that there were things higher than those of this world, and strove to attain them in the way which his religion and traditions pointed out to him.

Life in the village,

Such was the village system until modern times. But today it is hardly to be found in its entirety in any part of India. The economic conditions of the country are now undergoing a more or less complete transformation, and the village must necessarily change to keep pace with the march of events. The impact of Western civilisation is also working a change in the ideas and ideals of the villager, and is making it impossible for him to retain his old simple habits of life.

rapidly changing.

Effects of transition.

The rapid development of the means of communication and economic competition with the outside world have produced far-reaching effects on village life. Almost all the industries of the village are now in a decadent condition, and the loss of income due to economic dislocation has, in its turn, reacted adversely on the health and general well-being of the villagers. Attempts are now being made to revitalise the villages under the system of Community Projects.

5. STATUS AND CUSTOM

In India, until recently, every man was born into a certain status in society and family, and the whole course of his life

the South Indian village, Mr. T. Ramakrishna says: "It will be seen that this village is a little world in itself, having a government of its own and preserving intact the traditions of the past in spite of the influences of a foreign government and a foreign civilisation."

was determined by such status. Custom was, in the ancient days, the supreme regulator of his actions and relations in life. The influence of custom is, however, becoming less strong every day. The movement has been and is from status[1] to contract. Competition helps in bringing out the best in man and nature, while custom tends to hinder such development.

Influence of custom on rents,

Under the Hindu as well as the Mahomedan administration, and, to a large extent, during the early days of British rule, custom used to regulate rents. It is still, to a large extent, the foundation of rents in India.

on wages,

Custom was the chief regulator of wages in India till the middle of the last century. Nowadays, however, wages are governed more by competition than by custom. But wages are not so elastic and responsive to changes in circumstances as in the West.

on prices.

Prices also used at one time to be determined, to some extent, by custom. But nowadays they almost always depend entirely on the relations between demand and supply. It is only in parts of the country which are not easily accessible that custom is still found to exercise any considerable influence on prices.

[1] Status may be defined as the position or standing of a person as determined, not by his own free will, but by circumstances over which he has no control. Status is opposed to contract.

CHAPTER V

PRODUCTION

1. GENERAL OBSERVATIONS

Special conditions of

Of the factors of production, natural resources are, of course, of primary importance. India, as we have seen, is rich in this respect. There is fertile land as well as an abundance of mineral resources. The productivity of land, however, depends on rainfall, which is a very uncertain factor in the situation. Land is split up into millions of small plots, which are held by

land,

a numerous body of petty cultivators. Practically all land utilised for purposes of production is subject to the payment of rent.[1]

Labour is, except in industrial centres, plentiful. Wages are low; but as the workmen are ignorant and mostly unskilled, the

labour,

out-turn is comparatively small. Therefore, labour can hardly be said to be cheap. Movement of labour from place to place is very inconstant, and that from occupation to occupation is irregular. Competition, when it acts, often affects the labourer injuriously. The village labourer is diligent and sober, but un-enterprising and unambitious. He possesses a natural quickness of intelligence,[2] but education has not taught him how to put it to the right use. He is poor, and often heavily indebted. He usually works on his own account, and takes upon himself the functions of the capitalist and business manager, which he is unfit to fulfil properly. The dignity of labour is not yet fully appreciated by the so-called higher classes of society. Division and differentiation of labour are practised to a less extent than in the West.

capital,

Indigenous capital is not only small, but was, until recently, shy. Even where there is wealth, lack of enterprise often prevents the owner from investing it in profitable undertakings.

[1] The no-rent margin is in most countries invisible and indefinite; and the hypothesis of no-rent land is true, in practice as distinguished from theory, only in countries where there exists an active competition among the landowners and where the demand for land has not yet out-stripped the supply of it.

[2] John Strachey said long ago: "The agricultural classes are certainly not inferior in intelligence to the peasants of many of the countries of Europe." (*India, its Administration and Progress*, p. 394).

Business organisation, which is perhaps the most important factor for the success of modern industry, has not yet been developed in India to the extent that is desirable and necessary. Practical experience—the best school for learning business—has so far taught only a limited number of persons how to manage big concerns and to discharge properly the multifarious and arduous duties of the modern entrepreneur. Industrial training and the acquisition of commercial knowledge were, until recent years, lamentably neglected. The value of co-operation and combination is not yet fully appreciated. The number of entrepreneurs of real ability, character and enterprise is not large. organisation.

These are the chief among the drawbacks which, in spite of the richness of natural resources, have prevented the production of wealth from proceeding at a rapid rate. The annual production of India is not comparable to that of any other advanced nation. The country, generally, is not in a prosperous condition. Although a few persons have acquired considerable wealth, the condition of the middle classes of society has decidedly deteriorated, while the poor classes lead a precarious sort of existence from year's end to year's end. Result.

This is certainly a gloomy picture. But it need not fill us with despair about the future. Strenuous and persistent efforts on the part of the people are sure to lead to a substantial improvement in the economic situation. As a matter of fact, signs are already visible of the approach of a better state of things. The defects mentioned above are not inherent in the character of the people, but are the result of circumstances which they are now endeavouring to control and modify. We already find that considerable interest is being taken in the development of industries. A new spirit of enterprise is abroad. Labour is trying to shake off its lethargy and ignorance; capital is overcoming its shyness; and the bulk of the people is preparing for a new and vigorous industrial life. Better things hoped for in future.

CHAPTER VI

PRODUCTION—(*Continued*)

2. AGRICULTURE

Importance of agriculture: People mainly dependent on it.

AGRICULTURE is the most important industry of India. It gives employment to about two-thirds of the total population of the country, and of the rural population nearly 90 per cent. is connected with it, either directly or indirectly.

Agriculture accounts for nearly half the total national income. It supplies raw materials for some of the major industries, such as sugar and textiles and provides the bulk of India's exports.

Productivity of land.

Land constitutes the largest portion of the natural resources of India. In a large country like India, the productivity of the land cannot but differ from place to place. We have on the one side the exceedingly fertile black cotton-soil of Madhya Pradesh and the alluvial land of the Gangetic Delta and, on the other, the barren rocks of the Vindhyan hills and the sands of western Rajputana. Intermediate between these two extremes is to be found almost every possible variety of fertility. Speaking generally, however, we may say that land is fairly fertile in India.

The total geographical area of the country is 81·08 crore acres. Land utilisation statistics are available for 71·83 crore acres. The total area cultivated annually is 30·24 crore acres, of which only 3·49 crore acres grow crops more than once. The cultivated area works out to 1·2 acres per head of the agricultural population.

Land classified.

Land may be classified in a variety of ways. The chief classifications adopted are those into cultivated and uncultivated; cultivable and non-cultivable; irrigable and non-irrigable; *ek-phasli* and *do-phasli* (land which yields one crop in the year and that which gives two).

Produce depends on rainfall. Harvests:

The land area of India is divided as follows in the Census of 1951: (*a*) area under forests (93,384,959 acres); (*b*) area not available for cultivation (99,571,778 acres); (*c*) other uncultivated land, excluding fallow land (102,664,651 acres); (*d*) fallow land

(59,365,197 acres) and (*e*) net area sown (268,428,964 acres), the total being 623,477,114 acres.

rabi and *kharif*.

The actual produce of any year depends on the amount and distribution of rainfall. The average annual rainfall, as we have already seen, is 42″, but the amount varies enormously in the different parts of the country. The periodicity of the seasons often allows of two, and in a few cases, *e.g.*, the irrigated parts of the Madras deltas, of three harvests in the year. Double-cropping is possible in about one-seventh of the total cultivated area of India.

The two main harvests are the *kharif* or the summer crop, and the *rabi* or the winter crop. The *kharif* crops require much water for their growth ; therefore, they are sown as soon as the south-west monsoon commences, and they are reaped between September and November. The *kharif* crops include rice, *jowar*, maize and cotton.

The *rabi* less dependent on rainfall than *kharif*.

The *rabi* crops, as the name implies, are less dependent on rainfall. They are usually sown in October and November and they ripen in March and April. The major *rabi* crops are: wheat, barley, gram, linseed, rape-seed and mustard. The conditions affecting their growth being different, the character of the two kinds of crops also differs. This difference, however, is specially marked in Northern India ; it is less marked in West Bengal, and still less in Madras. During the period of their growth *rabi* crops are subject to a considerable degree of cold, which limits the choice of staples. In West Bengal and Madras, very much the same kinds of crops may be grown in summer and winter.

Kharif and *rabi* in different States.

In Bombay State, which gets almost the whole of its rainfall from the S-W. monsoon, *kharif* is the chief kind of crops. Madras grows chiefly the *rabi* crops, for it is in winter that the N.-E. monsoon brings rain to the State. In Northern India the South-West monsoon rain gives the condition necessary for the growth of varied *kharif* crops, while the winter weather is well suited to the *rabi*.

Classification of crops.

Indian crops may be divided into: (1) food crops, (2) fruits and vegetables and (3) commercial crops.

The chief crops: Food crops 85 p.c.

About 85 per cent. of the cultivated area is under food-crops. Rice is grown in areas of heavy rainfall, as, for instance, parts of West Bengal, Assam, the coast districts of Bombay and

Madras. Not only is it by far the most important crop of West Bengal, but over 31 per cent. of the cultivated area of India is under rice. The varieties of rice are innumerable. In West Bengal there are two main harvests: the *aus*, or early crop, and the *aman*, the later crop. The *aus* does not require as much rainfall as the *aman* does. The *aus* rice is all coarse, but it serves as a provision against famine when there is a failure of rains. A third variety is the *boro*, which is grown in a few districts of Bengal. The total yield of rice in India was about 33 million tons in 1936-37, the area under rice being 84½ million acres. As a result of Partition the area under rice and its total yield have both decreased. The total yield now is 24·2 million tons and the area under cultivation is 74,424 thousand acres. The average yield per acre is 1,240 lbs. in India (as against 3,444 lbs. in Japan). Rice is also an important crop in Madras and Bombay. In Uttar Pradesh and Bihar, it is grown either in damp localities or with the help of irrigation. It is practically the sole crop in the Deltaic swamps. Experiments are being made in different parts of India with the Japanese method of cultivation, and the results so far obtained seem to be satisfactory.

Rice.

Aus, aman, boro.

Wheat.

Wheat is grown in greater or smaller quantities in every State. The great wheat-producing tracts, however, are Uttar Pradesh, East Punjab, Bihar, Madhya Pradesh and Rajasthan. The conditions favourable for the growth of wheat are exactly the reverse of those of rice; consequently, we find that, broadly speaking, where rice thrives, wheat does not. Wheat is a *rabi* or winter crop, and wherever possible, it is irrigated. The area under wheat greatly expanded with the extension of canal irrigation. As a result of Partition the area under wheat and its yield have suffered diminution. At present the area under wheat is 26·842 thousand acres, the total yield being 8·5 million tons. India's average yield of wheat per acre is about a third of the corresponding figure in Egypt and Japan. Indian wheat used formerly to be regarded as inferior in quality, but the investigations of the Agriculture Department regarding superior varieties have resulted in a considerable improvement in the quality of the Indian output.

Barley and oats.

Barley is grown to a small extent all over India, and chiefly in Uttar Pradesh. It serves as food for men as well as for

animals. The total area under barley is 79·9 million acres, the yield being 2·7 million tons. Oats are a very minor crop in India.

Maize. Maize is grown in most parts of India, but in Uttar Pradesh it forms an important food-crop.

Millets. Millets are grown extensively in almost every part of India. There are several varieties of this crop, the chief being *juar*, *bajra* and *raijuar*. They constitute the principal grain-crop of Southern India. Millets are cultivated also as a fodder-crop.

Buck-wheat. Among cereals is classed buckwheat, the grain of which is very nourishing. It is grown in the Darjeeling hills and also in Madhya Pradesh and Bihar in small quantities.

Pulses of various kinds. Next to cereals, pulses occupy the most important place as food-grains. Various kinds of pulse-crops are grown in India; the most important of these are *arahar, chana, musuri, urd, mug,* and *kalai*. Pulse-crops thrive best in Uttar Pradesh, in Bihar and in some parts of West Bengal. The total yield is 10·5 million tons and the total area under cultivation is 54,004 thousand acres. Some of the varieties of pulses are used also as fodder for cattle.

Oil-seeds. Oil-seeds form very important crops in almost every part of India. The total cultivated area under oil-seeds is 29·3 million acres and the total yield is 5·9 million tons. There are several kinds of these, the more important among them being mustard (*rye, sorson,* and *tori*), linseed (*tisi*), *til*, castor (*rehri*), *sorguja* and groundnut. Oil is also obtained from fruits, such as coco-nut and mahua, from various flowers, and from cotton-seeds. Of late years, coco-nuts and ground-nuts have become important articles of export and their increased production is being encouraged by the Government. Castor-seed is also important because the *eri* silk-worms are reared on its leaf.

Coco-nut. Ground-nut.

Linseed and linseed oil. Linseed and linseed oil constitute important items of India's export trade. The enormous exports of oil-seeds involve considerable loss to the country. It is desirable, therefore, to export only the oil and to retain the cake for use as animal food and manure in the country. Even oil-cakes are exported in good quantities, while the Indian cultivators suffer from the lack of cheap fertilisers.

Sugar-cane. Sugar-cane is indigenous in India. It had at one time a pre-eminent position in respect of acreage and yield. Sugar was

for a long time a flourishing industry. The first check to the growth of the cane-sugar industry came from the development of beet-root sugar on the European continent. The immense development of the sugar industry in Java on up-to-date lines caused a further decline in the Indian sugar industry. In the years following the First World War, India became increasingly dependent on Java for the refined sugar required for domestic consumption. Under the recommendations of the Indian Sugar Committee of 1919-21 the system of organisation was improved and a research station for investigating sugar-cane genetics was started at Coimbatore. The real impetus to the sugar industry and consequently to the cultivation of sugar-cane was, however, given by the fairly heavy protection granted to sugar in 1932. As a result of these measures there was a phenomenal expansion in the sugar industry, so much so that India on the eve of World War II was almost self-sufficient with regard to her requirements of sugar. During the Second World War control was exercised by the Government over the supply as well as the price of this article, while the provincial governments concerned not only fixed the price of sugar-cane, but also sought to derive financial benefit from the manufacture of sugar by various means including the levy of duties.

Recent expansion.

Improvement in sugar-cane.

The development of sugar manufacturing industry markedly influenced the cultivation of sugar-cane. The total annual production is 5·5 million tons, and the total area under sugar-cane is 39·32 lakh in acres. The best cane is grown in West Bengal, U.P. and some districts of Bihar.

Acreage.

More than 2½ million acres have been brought under the improved varieties of cane. The Governments of Uttar Pradesh and Bihar have taken steps to control the production and sale of sugar and to fix minimum prices for sugar-cane from time to time. The whole position relating to the sugar industry was investigated by the Tariff Board early in 1950, and it recommended against the continuance of protection to the industry.

Palm.

Sugar is also obtained from the juice of the ordinary palm and of the date-palm. The date-sugar industry of West Bengal, which is now languishing, is capable of being made profitable, as the yield is certain and very little expense has to be incurred for cultivation.

Tea.

The chief tea-growing tracts are Assam, the Darjeeling and

Jalpaiguri districts of West Bengal, the Nilgiris in Madras, Dehra-Dun in U.P. and the Kangra valley in East Punjab. Of the total production of tea in India, more than 70% is exported and there is room for further expansion. The U.K. is the largest of the customers for Indian tea, taking about 70 p.c. of our total exports.

Restriction scheme.

In view of over-production leading to a crisis in the tea growing countries, the International Tea Agreement was entered into in 1933 which restricted the exports of tea from the participating countries and prohibited the extension of tea areas. This had the effect of securing an immediate increase in prices over the uneconomic levels then prevailing. This agreement was renewed, with minor variations, from time to time and was to expire in March, 1950 when it was decided to extend the Agreement for a further period of five years.

Tea Market Expansion Board.

Attempts were made by the Tea Market Expansion Board, later on replaced by the Central Tea Board, to popularise the consumption of tea. The recent prohibition measures gave opportunities to the Board to push the sale of tea.

Crisis 1951-52

The Indian Tea Industry faced a severe crisis during the period covering the last quarter of 1951 and the whole of 1952. This was due to less demand relatively to supply. A Committee was appointed by the Government in the middle of 1952 to enquire into the problems of the industry and to make necessary recommendations. The Committee, however, did not prove to be of any substntial help to the industry. Nevertheless, the recovery started in early 1953 on account of increasing demand for tea all the world over as well as due to the voluntary crop regulation measures adopted by the North Indian estates. The Plantation Labour Act of 1951, the enforcement of which was deferred owing to the critical conditions of the tea industry, is being enforced by stages from April, 1954. Unless the provisions of the Act which place an unconscionable burden on small estates are applied with due regard to the actual conditions prevailing in these estates, they will be hit very hard and may even cease to exist.

Plantation Labour Act, 1951.

Tea Act, 1953.

A comprehensive Tea Act was passed in May, 1953 which came into force with effect from April, 1954. A new Tea Board has been established under the Act which has replaced the Central Tea Board and the Indian Tea Licensing Committee.

It has very wide jurisdiction over almost every sphere of the tea industry and trade, including the control over production and exports, propaganda and similar activities. A Plantation Enquiry Commission was appointed in April, 1954 to enquire into all the problems and prospects of tea, coffee and rubber plantations, and to make necessary recommendations.

Plantation Enquiry Commission.

It is essential that the quality of tea both for export and local consumption be improved and every effort be made to bring down the cost of production so that Indian tea may be able to withstand competition from other countries in the foreign market.

The best exchange-earner in 1954.

Tea industry reached a high level of prosperity in 1954 and became the best exchange-earner of the country. This prosperity was due to short-fall of world production in 1952-1953, better management of the Indian tea-gardens and greater demand in foreign countries. There was, however, a setback for the tea industry in 1955. This was due to several causes, such as the credit-squeeze in U.K. and Australia leading to a diminution of foreign demand, the change effected in the system of auctions in Northern India and apprehended labour troubles. A crisis, however, was averted by an improvement in foreign demand, diminished competition of other countries and greater alertness on the part of Indian tea-garden owners.

Set-back in 1955.

Crisis averted.

Tendency towards improvement.

The tea industry began again to show an improvement from the beginning of 1956. This has been due to greater foreign demand, increased internal consumption and slight decline in competition from Ceylon, Indonesia and Pakistan.

Measures necessary for full success.

In order that tea may always be a flourishing industry and be the best exchange-earner of the country, it would be necessary for the tea-planters to manage their affairs in the most economical and efficient manner. While the legitimate interests of labour should be safeguarded, labour itself must do its duty properly. The Government also must play their part fairly and squarely, by removing all the difficulties which the industry has been labouring under, affording adequate transport facilities, giving tax-relief, whenever necessary, and rendering other forms of assistance which the industry may require from time to time.

Coffee.

The cultivation of coffee is confined wholly to Southern India. It has to face acute competition from Brazil and Ceylon. The area under coffee is 23 lakh acres and the total production is

59·7 million lbs. An Indian Coffee Board was constituted under the Coffee Market Expansion Act, 1942, to control the marketing and export of coffee. Every effort is being made by the Board to increase the local consumption of coffee as well its export, with a view to earning foreign exchange.

Fruits. Nowhere, perhaps, in the world is a larger variety of fruits to be found than in India. The production of nutritious fruits is however below the total requirements for health. The cultivation of fruits is not undertaken according to proper scientific methods. If this is done, the quality of the fruits is sure to be improved and the yield greatly increased. New fruits suited to the condition of the climate and the soil ought also to be introduced. India is capable not only of supplying herself abundantly with fruits, but also of carrying on a lucrative trade with other countries. The Government should take active steps towards the larger production of as many varieties of fruits as possible and also for preservation, as a huge quantity of fruits and vegetables is being wasted every day both directly in course of transport and storage.

Table-vegetables. Of table vegetables a large variety is found in India. The most common and important is potato. It is usually grown after *aus* paddy or jute. In some tracts of the country potato is the principal crop or the only crop of the year. Deep cultivation is essential for the growth of the crop. The total production of potato is about 19·32 lakh tons a year. The other common vegetables are *palvals, brinjals,* cabbages, cauliflowers, tomatoes, and turnips. Akin to potatoes is cassava or sweet potato, called *simulalu* or *sarkarkanda,* of which there are several varieties; some are red, some white. This vegetable sometimes serves as the chief food during famines and scarcities. It resists drought and yields a nourishing and palatable food. A more extended cultivation of this and other drought-resisting articles is desirable as a protection against shortage of food supply.

Spices. Although spices of various kinds are grown in different parts of the country, the total production is not sufficient to meet the local demand. A great extension of their cultivation is needed.

Fodder-crops. The crops most largely used as fodder-crops are *juar, bajra,* and *ragi.* In East Punjab and Bihar *juar* is largely cultivated as a fodder-crop. It is also grown in some parts of Bombay. In Madras *ragi* mostly takes the place of *juar.* Sugar-cane, as a

fodder-crop, is used principally by the planters in Bihar. Grams, oats, barley, turnips, and prickly pears are grown in different parts of the country as fodder-crops. Some kinds of trees are valuable as supplying fodder for cattle. The cultivation of fodder-crops (on proper lines) is very necessary for the improvement of cattle.

Commercial crops.

Among the fibre-crops, jute and cotton are the most important. Undivided Bengal held the virtual monopoly of jute in the world. But, as a result of Partition, the principal jute-growing districts of Bengal belong to Eastern Pakistan. India has now become an importer of raw jute from Pakistan. The Government is now taking various steps to increase the area and yield of jute cultivation. Jute is also grown in Bihar, Assam, Orissa and Madras in small quantities. It is chiefly grown on land which is liable to be submerged in the rainy season. The conditions which are suitable for rice are, generally speaking, also suitable for jute. Jute has been for a long time a very paying cash crop to the cultivators. In 1953 the total area under jute was 1,196,000 acres.

Jute.

Out-turn.

The first mention of jute as an article of export was made in 1828. Jute manufactures are exported in large quantities, constituting a large percentage of the total value of Indian exports. These exports go to all parts of the world, the largest purchaser of raw jute being the United Kingdom.

Substitutes for jute.

Attempts have been and are being made in several consuming countries, to find out workable substitutes for jute as a packing material. Experiments have been made with multi-wall paper-bags, sisal, manila hemp, *sunn*-hemp, aloe-fibre, rossella-fibre, etc. Efforts to grow jute in Central American countries and some other places are also going on. But up till now these various attempts have not affected the jute trade to a substantial extent. The real danger, however, to our jute export trade is likely to come from the wide adoption of the system of bulk-handling. It is necessary to guard against a posible danger, and serious efforts should be made to find out new uses of jute within the country. Research work in jute has already made some progress under the directions of the Indian Council of Agricultural Research and the Jute Research Institute started by the Indian Jute Mills' Association in conjunction with the University of Calcutta.

Jute research.

Two other fibre-crops allied to jute are Bombay hemp or *mesta-pat*, which is regarded by experts as even superior to jute, and *sunn*-hemp. Rhea is another important fibre-crop. Great hopes are entertained of the prospects of the industry in future. Aloe-fibre is also a useful economic product, which is grown only in tropical and sub-tropical countries. *Mesta-pat. Sunn-hemp.* Rhea. Aloe-fibre.

Cotton holds a very important place among the agricultural products of India. Like jute, cotton has been the victim of Partition. As a result of Partition the area and yield of cotton crops have suffered a considerable decline. In 1953 the area under cotton was about 13 million acres, the yield being 43·70 lakh bales showing an increase of 8 lakh acres in area and 10·8 lakh bales in production over 1952. Cotton can be grown more or less over almost the whole of the country. The principal cotton-growing tracts, however, are the highlands of the Deccan, the valley of Madhya Pradesh, the plains of Gujrat and Kathiawar, the Tinnevelly, Madura, Coimbatore, Ceded Districts of Madras, and Bihar. Cotton is of two varieties, namely, cotton-crop and tree-cotton; there are numerous forms of the cotton-crop and tree-cotton also is of several kinds. In the Deccan the most suitable soil for cotton is the black cotton-soil. The quality of the product is inferior to that of the United States, and the yield per acre is also less. In East Punjab experiments with American cotton have evolved an acclimatised type, which is at present confind to the Canal Colonies. "Cambodia" or "Tinnevelly" cotton grows well in the red soil of Madras State. It is superior to the American variety in quality and ginning outturn. Experts believe that cotton cultivation is capable of being greatly improved, and that "the cotton crop of India can be doubled without interfering with the growing of food supplies." Cotton. Chief cotton growing tracts. Varieties.

Although the cultivation of indigenous cottons is more remunerative to the farmer in non-irrigated tracts, the prospects of the production of long staple cottons are decidedly favourable in East Punjab, Gujrat, Southern Madras and Madhya Pradesh. Earnest efforts are being made by the Government and the people to make India self-sufficient in respect of raw cotton. Long-staple cotton self-sufficiency desirable.

It is noteworthy that, while India gets large quantities of cotton from abroad, she also exports considerable quantities.

Simul and *ak*.

The *simul* (silk-cotton) trees as also the common *ak* which grows wild in sandy places yield a silky fibre which can be converted into a valuable silk of fine quality.

Sericulture.

Sericulture was once a profitable industry, but towards the middle of the last century it declined. The decay of sericulture in India has been attributed to the following causes: (*a*) low price obtained for the product due to foreign competition, (*b*) high rent of mulberry land and (*c*) degeneration of the silkworm.

Sources of supply.

The main sources of mulberry silk in India are Mysore, Coimbatore in Madras, Kashmir, certain districts (Malda, Murshidabad, and Birbhum) of West Bengal and a few scattered areas in Assam and East Punjab. Besides mulberry silk, which constitutes the larger part of the total production, *tasar* is produced in Bihar, Madhya Pradesh, some districts of West Bengal and Uttar Pradesh ; *muga* is produced in Assam, and *eri* in West Bengal, Assam, Bihar, Orissa, and Madras. In West Bengal and in the Mysore State valuable experimental work was done some years ago under the supervision of experts, as a result of which the area of land under mulberry cultivation has substantially increased. In Kashmir the silk industry is a State monopoly.

Silkworm rearing.

In the whole of India more than a million persons depend on silkworm rearing. Production of raw silk in 1952 was 1,744,718 lbs. As compared with the pre-war (1939-40) period, both imports and exports of silk have declined.

Tobacco.

The total quantity of tobacco grown in India is large. It is grown in many districts ; but the chief places of production are Tirhut in Bihar and certain districts of Madras.

Lac.

Among the miscellaneous crops the more important are lac and rubber. Lac is a resinous incrustation formed on the twigs of certain trees. Assam, and parts of Bihar and Madhya Pradesh are the chief sources of its supply. The importance of lac as an export-commodity is increasing steadily. India enjoys a practical monopoly in the trade. The Indian Lac Cess Committee controls the industry and encourages research on the ways of refining and utilising lac.

Rubber.

The importance of rubber as an economic product is being recognised more and more widely every day, owing to the numerous technical purposes for which it is utilised. In India

its principal source of supply is the Malabar coast. The area under cultivation is very small, the yield being 43 million lbs., which is insignificant as compared with world production. India imports every year a large amount of rubber goods, particularly tubes and types for motor vehicles, and there is a good possibility for the development of rubber manufacturing in India.

The Indian Rubber Board established in 1947 for promoting the development of the rubber industry as regards production and marketing is doing good work.

Cinchona.

The two main centres of cultivation of cinchona are the Darjeeling and Nilgiri hills. It is a Government monopoly. The quantity of the article produced in the country is insufficient and it is necessary that an expansion of cultivation should be undertaken without delay in order to combat malaria.

Indigo.

Indigo was at one time one of the chief crops of India. The use of aniline dyes has, however, greatly diminished its importance. Its cultivation has now ceased in Bengal, but has been continued in small quantities in Bihar and Uttar Pradesh. The chemical dyes, though cheaper, are inferior in quality to indigo and other vegetable dyes, and a revival of indigo is not altogether impossible.

Poppy.

Poppy cultivation is restricted mainly to Bihar and some districts of Uttar Pradesh north of the Ganga. In India it is conducted on behalf of the Government. Poppy is also cultivated in parts of Rajasthan and Madhya Bharat. It is a *rabi* crop.

Agricultural statistics.

Accurate statistics regarding the agricultural produce of India are not available. But the following figures[1] for 1954-55 will give the reader some idea:—

Area and yield under food-crops.

Crops	Area (000, acres)	Yield (000, tons)
Rice	77,424	24,209
Wheat	26,842	8,539
Jowar	43,456	9,092
Bajra	27,350	3,555
Maize	9,325	2,944
Small Millets	13,680	2,424
Barley	7,999	2,786
Ragi	5,447	1,778
Cereals Total ...	208,823	55,327

[1] The figures are for 1953-54.

Crops	Area (000, acres)	Yield (000, tons)
Pulses	54,004	10.474
Oilseeds	29,335	5,877
Potato	665	1,762
Sugar-cane	3,932	54,648[1]
Tea	755	488·72 (lbs.)
Cotton	18,346	4,298
Jute	1,273	3,153[2]
Mesta	571	1,106
Tobacco	860	248
Rubber	172	43

Animal husbandry.

Livestock is generally divided into three classes, namely, (*i*) bovine, *i.e.,* oxen and buffaloes; (*ii*) ovine, *i.e.,* sheep and goats; and (*iii*) others including horses, donkeys, camels and pigs. The total number of livestock in 1950-51 was 281,490,000 of which bovine accounted for 195,034,000 and ovine, 88,586,000. Among the best cows in India are Sahiwal (East Punjab) and Gir (Sourashtra). There is a considerable export and import trade in livestock products. While dairy products, such as condensed milk and cream, milk foods for infants and invalids, butter and cheese comprise the main imports, bones and horns are exported. There is a two-way trade in hides, skins and wool.

Dairy-farming.

Dairy-farming is akin to agriculture and can be profitably practised in association with it. This ought to be a flourishing subsidiary industry in India, but unfortunately is now in a languid state. The average yield of milk per cow per annum is 413 lbs., and this figure is the lowest in the world. The reason is to be found in the uneconomical method of work, the neglect of hygiene and proper breed of cattle, and the want of pasture lands. The supply of milk and its products, such as butter, *ghee, matha,* etc., has greatly diminished in relation to the demand. The best efforts of the Government and the people should be directed towards an industry which would supply them with the most nutritious kinds of food. For this purpose, the improvement of cattle and an increase of grazing fields is absolutely essential. The extension of dairy-farming on co-operative lines should be seriously considered.

[1] In terms of raw sugar (*gur*).
[2] Lakh bales.

Milk supply in cities has become scarce and extremely costly and it is high time the municipalities of India moved. in this direction. Some State Governments have recently been awakened to the urgent necessity of solving the milk problem and are taking various steps in this regard. The West Bengal Government has started a dairy farm with a large capital outlay at Haringhata, the progress of which will be watched with keen interest. Cattle breeding on a larger scale and the importation of good cattle from abroad should engage the immediate attention of the Central and State Governments.

Good cattle. Good cattle is necessary for agricultural purposes as well as for milk supply. Unfortunately, adequate steps have not so far been taken to improve the cattle wealth of India. Some attention was given to problems of breeding and improvement of cattle by Lord Linlithgow, but this did not not go far enough.

Arboriculture. Arboriculture is a science akin to agriculture. The forests in India are mostly under State control. They are classified, for departmental purposes, into (*i*) reserved, (*ii*) protected, and (*iii*) unclassed or public forest land.

Afforestation. India is capable of growing various kinds of trees. They grow naturally in places where there is an abundant rainfall; but they can be grown everywhere,—even in the arid tracts. At one time almost the whole country of India was covered with trees. In the first half of the nineteenth century, however, afforestation was badly neglected, and many parts of the country were denuded of forests. But a policy of systematic conservation of forests has now been adopted.

Beneficial influence of forests. The propagation of trees which yield fruits, starch, oil sugar, vegetables and fibres is of vast importance to a country where a failure of agricultural crops through drought or inundation is of frequent occurrence. The Forest Research Institute at Dehra-Dun is engaged in exploring the possibilities of development of India's forest products. **Forest products.** Lac, tanning materials, essential oils, turpentine, and resin have established themselves firmly in the markets of the world. But apart from their invaluable uses for food, fodder, timber and other articles, trees are highly useful for their influence on climate and rainfall. The presence of trees reduces the temperature of the atmosphere, while radiation is hindered at night. Trees thus produce the effect of equalising temperature; and by keeping the atmosphere

moist they induce the fall of rain.[1] Beneath the shade of trees a rich layer of humus is formed which keeps the roots cool in summer and warm in winter, besides absorbing and retaining a great quantity of water. It is in this way that trees sometimes change the character of the poorest soils permanently for the better. Further, they prevent the soil from being washed away or denuded by rain. Trees also act as a most valuable fertilising agency of surface soils by bringing up food materials from the depth of the land and storing them in leaves which afterwards fall and get mixed up with the soil. Lastly, they serve as break-winds in localities where high winds are undesirable. It is essential, therefore, that by improvements in the method of culture, by the adoption of better methods of administration, by the development of new uses and markets, and by greater attention to forest products, the forests of India should be made a very important source of her national income.

Importance now being recognised.

The importance of forests is now being recognised everywhere. *Vana-mahotsavas* have been celebrated throughout India during the last six years, and many lakhs of trees were planted on these occasions. Unfortunately, many of the plants did not survive long. If trees, particularly fruit-bearing trees, are planted every year along roads, rivers, canals, railway lines and in other suitable places throughout the country and adequate care is taken for their survival, the problem of drought would be largely solved and food-supply would be considerably augmented. The extension of the Rajasthan desert can be checked by proper afforestation.

Vana-mahotsava

Pisciculture.

Pisciculture is an important industry. Fish is valuable as human food and also as manure for agricultural purposes. Fisheries afford employment to a large number of persons; but the industry is carried on in a very inefficient manner, and can hardly be said to be a prosperous one. If proper methods be adopted, India, with her innumerable rivers, streams, and tanks, as well as her extensive sea-board, can have a plentiful supply of fish.

Recently, the State Governments of Madras, Bombay and

[1] This has been proved by experiment. For instance, in the Delta of the Nile, since the planting of trees the average number of rainy days in the year has increased from 6 to 40. In India many fertile parts of the country have become sterile since the destruction of forests.

West Bengal seem to have become alive to the need for developing fishery resources. But, unfortunately, no active steps have so far been taken for developing fisheries in these areas. The Government of India have also invited expert opinion on the question. There should not be any delay in undertaking adequate measures of a practical character for the expansion of the fishing industry.

In India, as we have seen, the land is split up into millions of small holdings. Consequently, agriculture is practised on a small scale. The average size of the holding in Assam and West Bengal is so small that the cultivation of it is hardly too much for the owner himself to accomplish. The same conditions are found in other tracts. Cultivation is intensive only in exceptional instances. It is practised in the different States with an infinite variety of detail, according to the varying conditions. The Deltaic swamps of a part of West Bengal, the dry uplands of the Carnatic, the black-soil plains of the Deccan, the strong clays of East Punjab, and the desert of Rajputana require separate modes of cultivation. The Indian peasant is ignorant, and consequently the method of cultivation is unscientific; but practice and the inherited experience of generations have taught him the value of a rotation of crops and the use of fallows. He knows what crops are suitable to a particular soil. He sows and reaps at the right times. He is assiduous and does his best to get the largest return from his field. But his poverty often prevents him from properly manuring his land, providing good seeds, or leaving his land fallow for a season. The implements used are of the simplest kind, and improved varieties needed for better cultivation are beyond his reach.

Method of agriculture, small-scale, extensive, unscientific but not inefficient. Agriculturist assiduous, possesses inherited experience, but is poor.

Considering the circumstances of the peasant and the conditions of Indian agriculture, it may be said that, on the whole, the peasant is efficient. What the peasant primarily wants is more capital. With greater capital he would be able to spend more on seeds and manures, he would purchase better cattle and feed them properly, and he would be able to supply his land with the required amount of water. The peasant also lacks a knowledge of improved methods of cultivation, and, to remedy this defect, agricultural education of a simple sort is necessary.

Chief want—capital.

Improvement of agriculture. Suggestions must be practical.

As agriculture is the chief industry of the country, and as the success of other industries depends on the supply of raw materials, the improvement of agriculture ought to engage the serious attention of every well-wisher of India. Various suggestions have been made from time to time for the improvement of Indian agriculture. Some of these suggestions, however, have come from men who have not taken fully into consideration the circumstances of the cultivator and the conditions under which he has to work. The scientific method of cultivation involves large tracts of land, deep ploughing, perfect irrigation, good manuring, and proper rotation of crops. It thus necessitates the expenditure of a large amount of capital which is beyond the means of the ordinary cultivator.

Much room for improvement even under present conditions.

There is, however, much room for improvement even under the present conditions ; and it is believed that the introduction of improvements will increase the yield by about 15 to 20 per cent. Co-operation among farmers may go a long way towards solving some of the problems and removing many of their difficulties. For instance, the farmers may combine to purchase improved implements for their common use, or they may join together in constructing wells for supplying water to their fields, or they may leave common pasture-land for the argzing of cattle. The Co-operative Societies, if properly worked, may be of immense help to the agriculturists.

The Japanese method.

Scientific experiments, carried out with a full regard to the circumstances of the country, will undoubtedly prove useful in many ways. A notable development in the sphere of intensive cultivation during the last three years was the initiation of the Japanese method of paddy cultivation. Introduced in 1953, in the first year the new method was applied to an area of a little more than 4 lakh acres. The results were highly encouraging, the per acre yield of paddy by the Japanese Method ranging between 3,500 lbs. and 8,000 lbs., as against the average per acre yield of 615 lbs. to 1,200 lbs. In 1954 a vigorous campaign was organised to apply the new method over an area of 20 lakh acres. The Japanese method should be further extended.

Agricultural fairs and shows.

Agricultural fairs and shows may be of much use to cultivators by demonstrating the advantages of improved implements and of good seeds and suitable manure.

The Indian peasant is not "a living emblem of inertia". But, in order to induce the peasant to adopt improved methods, the experts must prove, not on paper, but by actual farming, that these are paying and are suitable to the conditions under which the cultivator lives. The introduction of Cambodia cotton into the Madras State is perhaps one of the most striking instances in India of how readily the peasant will take up a new cultivation once he is satisfied that it pays him to do so.

The peasant not hopelessly conservative.

The extension of the different modes of irrigation which have recently been taken in hand are likely to increase the area under cultivation and thus add to the agricultural wealth of the country. The Government should actively encourage the adoption of such dry-farming methods as have been found useful by experiment. A bulletin of the United States Department of Agriculture says that dry-farming consists not only in raising crops in regions of moderate but uncertain rainfall by collecting and preserving all the moisture obtainable, but also in raising certain kinds of crops in districts where the rainfall is altogether deficient.

Irrigation and dry-farming.

Undoubtedly, agricultural education[1] is essential for the improvement of the condition of the agriculturist. But agricultural education must be preceded by general education. The Government imparts instruction in the science and the practice of agriculture in a number of agricultural colleges and schools. But the kind of education which is at present imparted in these institutions hardly leads to much practical result. To be really useful, agricultural training should consist of two parts,—a higher and a lower; the first for turning out experts and organisers, and the second for assisting actual cultivators in their work.[2]

Agricultural education.

[1] India, 1956.

[2] A Royal Commission, appointed under the Chairmanship of Lord Linlithgow, published a valuable Report in 1928, containing a comprehensive study of almost all problems connected with Indian agriculture. Their recommendations covered a very wide range, including problems relating to animal husbandry, irrigation, forests, education, communications, financing of agriculture, rural industries, and horticulture.

Agriculture Commission.

The Government did not take active steps to implement many of these recommendations. But two of their important recommendations considerably influenced the subsequent activities of the Government and public bodies. First, the Commission had strongly emphasised the need for a co-ordination of agricultural research under a central organisation.

The Second World War had far-reaching effects on the agricultural situation in India. The first reaction of the war was adverse to agriculture. But on the fall of Burma, agricultural prices, particularly the price of food-grains, began to rise alarmingly, and the Government had to appoint a Food Grains Policy Committee under the chairmanship of Dr. Gregory to advise them on the methods of tackling the crisis. Prohibition of export of food-grains, control over procurement and distribution, the introduction of rationing, and the intensification of the "Grow More Food Campaign"—were some of the principal recommendations of the Gregory Committee.

Food-grains Policy Committee.

"Grow-more food campaign".

But a disaster came in the shape of the Great Bengal Famine of 1942-43. The fall of Burma, the Denial Policy pursued by the military authorities, the excessive rise in prices, and inefficient and reckless administrative measures were some of the factors that contributed to the outbreak of the famine which took a toll of several millions of human lives. Even when the acute famine conditions were over the food deficit continued. To meet the situation the Government adopted a Five-Year Food Import Policy in 1948, but soon they realised the blunder involved in it and announced early in 1949 a Three-Year Food Sufficiency policy. A food drive was launched throughout the country, but without much tangible result. The energetic policy adopted in 1952-54 by Sri Kidwai, the Central Food Minister, coupled with these good monsoons in succession, however, led to a great improvement in the food situation.

Continued from previous page.

Indian Council of Agricultural Research.

The Government of India adopted in 1928 a scheme for the establishment of the Indian Council of Agricultural Research. This Council has considerably helped organised research. The acceptance of another proposal, namely, marketing has also proved useful.

Russel-Wright Committee.

The Russel-Wright Committee, appointed by the Government of India in 1936, made valuable suggestions regarding the promotion of agricultural research, control of insect pests, improvement of cattle and dairy farming, etc. The Government gave effect to most of their recommendations, and Agricultural Colleges and Research Institutes were established in different parts of the country.

CHAPTER VII

PRODUCTION (*Continued*)

MINERALS

As we have already seen, India is rich in minerals of many sorts, and her mineral wealth can be greatly increased if capital, enterprise and technical knowledge are forthcoming. The decline of the ancient metallurgical and chemical industries injuriously affected mining in India. It resulted in the almost exclusive development of those minerals which could be consumed by direct processes on the spot or which, on account of their abundance and cheapness, were suitable for export in a raw state. Nevertheless, a revival in recent years has occurred in the output of minerals after a fairly long period of depression. The average annual value of mineral production in India during the decennium 1913-23 was Rs. 32·8 crores, but this average came down to Rs. 23·8 crores during 1929-32. In 1940, the value of production rose to Rs. 56 crores, in 1947 to about Rs. 60 crores, in 1950 to Rs. 86½ crores, in 1954 to Rs. 83·4 crores and in 1955 to Rs. 87·3 crores. The production of minerals in 1955 was 18 per cent higher as compared to the 1951 figure.

Revival of mining.

Total mineral production.

Large increase in 1955.

Coal is the most important of India's minerals. Coal, the supreme source of energy and heat as well as a prime source of by-products for the chemical industry, has a unique importance of its own in national economy. The total output of coal in 1954 stood at 36·88 million tons valued at 53·9 crores of rupees. The output further advanced to 38·23 million tons valued at Rs. 56·03 crores. The total exports in 1954 were about 2 million tons. The Railways are the biggest consumers of coal and they have some good collieries at their disposal. The coal workings in India are still rather shallow, only one shaft having been sunk to a greater depth than 800 feet. Coal is very unevenly distributed over India. Its production is concentrated in what is known as the "Bengal Coal Fields", though by far the largest portion of the total output is now contributed by the mines in Chota Nagpur (Bihar State). The coal

Coal.

raised in the State of West Bengal comes from the Ranigunj coal-field. The first working of this field dates from 1820. The Jharia coal-field is situated in the districts of Manbhum and Hazaribagh. About 82 per cent of the total output of the country is contributed by the States of West Bengal and Bihar. There are important fields in Assam, but the distance of the Assamese coal-fields from the leading industrial centres and the seaports of India prohibits greater use of these high class coals, of which large reserves exist. The other coal-fields are to be found in Madhya Pradesh, Hyderabad, Vindhya Pradesh, Orissa and Rajasthan, but these are small both in size and output. The coal-fields of India belong to the Gondwana Age. They almost invariably follow the river valleys, and to a great extent, are basin-shaped. Benzol, coal tar, ammonium sulphate and other important by-products are obtained from coal.

By-products.

Low output.

The most important drawback of the Indian coal industry is its low output. "In no country in the world", it was observed in the Report of the Indian Coal Committee, "which has a coal industry of any size, is the output per head per annum so low as it is in India". This is attributed to the inefficiency of the Indian labourer who is primarily an agriculturist and casually a coal-miner, and is an unskilled worker.

Coal Grading Board.

Protection refused.

For a long time the Indian coal industry had been crying for protection, particularly against cheap South African imports. The Legislative Assembly recommended a countervailing duty on South African coal in 1924. The Indian Coal Committee of 1924 made valuable recommendations, of which that for establishing a Coal Grading Board was adopted and given effect to by the Government. The question of protection was referred to the Tariff Board in 1926 which did not recommend protection. The demand for protection was repeated by the Associated Chambers of Commerce in 1935. But the Government of India refused to comply with the request, although it was recognised that coal output was the dominating factor in competitive industry in modern times. "The possession of native coal", wrote an eminent expert many years ago, "means the possession of power. It means that the nation is gifted by nature with magnificent stores of energy which can be liberated to work the wonderful machines which men have invented

Importance.

—which can be expressed at will either as light or as heat or as electricity".

When it is remembered that India's reserves of coal of good quality are limited, it becomes evident that there is a necessity for the conservation of better quality coals. Amongst measures of conservation are the blending and washing of coals and sandstowing of the mines, besides restriction of output. Under the Coal Mines (Conservation and Safety) Act, 1952, a Coal Board was formed to administer the policy and to iron out the difficulties of the industry. In recent years there has been an insistent demand from economists and others for such conservation.

Problems.

Although the industry has been making mighty efforts to step up production, it has to do so in the face of various difficult problems. In the forefront of these problems is the problem of selling prices. The industry is faced with an inadequate margin between the cost of production and the controlled selling price fixed on the basis of production of 1947. Costs of production have steadily increased, while under the rigidity of controls, the selling prices have remained the same. Consequently, the production is not increasing at the rate at which it should. The industry is also beset with a multiplicity of controls and the private sector is hedged in by severe restrictions in its various spheres of operation. The controls, if they must be exercised, should be applied in a realistic and businesslike fashion. The second problem which besets the industry is that of the shortage of wagons to carry coal from the pitheads to the centres of consumption. This inadequacy of rail transport is another great impediment to the development of the industry. Moreover, due to this lack of adequate transport facility there has been a steady accumulation of stocks at the pitheads with the danger of coal being destroyed by spontaneous combustion, particularly in Raneegunge field. The third problem that the industry is to face is the problem of construction of washeries. The small and medium-sized collieries are unable to construct such washeries due to their weak financial position. So there has been a demand for the setting up of central washing plants at Government expenses, to be utilized by these collieries.

A high-power council has recently been appointed by the

Union Government whose function will be to remove the existing defects and deficiencies in the working of coal mines and to study the problem of resources, demand, metallurgical requirements, transport and power needs, indusrial and domestic requirements, coal-based chemical industries and organisation in relation to the coal industry.

In order to avoid some of the difficulties it is considered desirable to amalgamate a large number of small collieries. The scheme which is under consideration is to amalgamate 1,008 coal mines into 120 units. Each unit will consist of a minimum of 300 bighas of land with five million tons of coal intact underground and the production capacity of each unit shall not be less than 10,000 tons per month. If amalgamation is not undertaken on a voluntary basis by coal-mine owners before the end of the year 1957, the Central Government will set up a Commission with power to enforce compulsory amalgamation.

Five-year Plan and the Industry. The First Five-Year Plan contained virtually northing to relieve the industry of its current burdens and to develop the industry by means of planned action. But an attempt has been made to formulate a plan for coal under the Second Five-Year Plan. At a conference of the Planning Commission and the coal interests held in July, 1956, a target of 60 million tons was agreed upon for the Second Five-Year Plan. The private sector gave the assurance that it was ready to step up its production by 12 million tons during the Second Plan period, provided the Government definitely assured that they would not nationalise the industry within thirty years.

Petroleum. India requires a large quantity of Kerosene for domestic use. In rural India the article which the villager prizes most, next to his food and clothing, is Kerosene which has rapidly replaced vegetable and fish oils. India's demand for petroleum is also increasing fast. The supply of mineral oil comes from the Digboi field in Assam which is now producing 70 million gallons annually which is about 5 per cent of India's total requirements. The present installed capacity is about 150 lakh gallons annually, though the production is only about 90 lakh gallons.[1] More than 90 per cent of India's requirements is at

[1] India, 1956, p. 3.

present met by imports. India now contributes only a small part of the world's supply of mineral oil, and her output falls far short of her heavy domestic demand. So she has to import large quantities of Kerosene and petroleum from abroad. In view of the fact that petroleum constitutes one of the most important articles of necessity in the modern world, India's complete dependence on foreign imports is the most unsatisfactory feature of the present situation in this respect. It has been decided to extract mineral oil from low-grade coal and factories are being established by foreign firms in collaboration with the Government of India.

New Source in Assam and other States.

A new oil source in Assam has raised expectations that during next few years 25 p.c. of India's oil requirements will be met by the State alone. The aeromagnetic survey has revealed an indication of the presence of oil in the Gangetic alluvium of Uttar Pradesh.

Recently, possibilities of the discovery of fresh resources of petroleum have been indicated in West Bengal and in some other States, and explorations are being undertaken. Besides, there are plans to produce some 200 lakh gallons of industrial and power alcohol from about 4 lakh tons of molasses which are produced by sugar factories and are now largely wasted.

Petroleum products.

Of the petroleum products, the most important are motor spirit, kerosene, distillate fuels and wax.

Iron.

Iron Ore has now become a very important mineral product of India. The larger part of the supply comes from Singbhum (in Bihar) and from Mayurbhanj and Keonjhar (in Orissa). According to Cyril Fox, the iron ore resources of India are as large in quantity as, and superior in quality to, those of the United States of America. In one tract alone, comprising the areas of Singbhum, Bonai, Keonjhar and Mayurbhanj, the reserves of iron ore with upwards of 60 p.c. iron content have been computed at no less than 3,000 million tons. There are also valuable deposits in Madhya Pradesh, in Madras, in Mysore and elsewhere in India. The production of iron ore greatly increased after the establishment of the Tata Iron and Steel Company in 1911* In 1950 the output of iron ore amounted

* The establishment of the Tata Iron and Steel Works was made possible by the discovery by an eminent Bengali scientist, P. N. Bose, of iron ores in the vicinity of Jamshedpur.

to nearly 3 million tons valued at Rs. $153\frac{2}{3}$ lakhs. There was an increase in the output to 4·3 million tons in 1954, which was due mainly to the opening of several mines in Andhra. The production of iron ore reached a new peak of 4·64 million tons in 1955 valued at Rs. 3·24 crores. This was 10 p.c. higher than in 1954 and 27 p.c. higher than in 1951. During 1955-56, the production of iron ore was 4,269,020 tons and during the same period the production of steel was 1,260,300 tons.

Manganese.

India was for some time the foremost among the countries producing first-class manganese ore, but at present she has to face strong competition from the Russian and South African mines. Manganese is mainly required for manufacturing steel and hence the exports go chiefly to the steel-producing countries. There being no smelting plant in the producing centres, the ore is exported in bulk exactly as mined. During World War II there was a marked fall in production. The Manganese mining industry experienced a slump in 1954, but it partly recovered in 1955. The output of manganese ore in 1955 was of the order of 1·57 million tons valued at Rs. 10·82 crores and was 12 per cent higher than in 1954.

Chromite.

Chromite, which is used both for making alloy steels and refractory, is found in considerable quantities in Mysore State, Singbhum (Bihar) and Keonjhar (Orissa). Small reserves are found in Salem (Madras), Ratnagiri (Bombay), Savantwadi (Bombay), Bezwada (Andhra) and in Kashmir. The reserves so far estimated amount to 1,320,000 tons. In 1940, the total output was estimated at 55·5 thousand tons, valued at 7·43 lakhs. The production of chromite in 1954 was 45,507 tons valued at nearly Rs. 13·5 lakhs.

Magnesite.

Magnesite is chiefly obtained from the Salem district of Madras and from Mysore. The total output of magnesite in 1954 was 70,507 tons valued at Rs. 14·5 lakhs. The Board of Scientific and Industrial Research considered the question of establishing works for reduction of magnesite near the Mettur Hydro-electric works close to the Salem deposit to be feasible. There are rich deposits also on the Coorg, Bombay-Rajasthan border and in Uttar Pradesh.

Tungsten Ore.

Small quantities of tungsten ore (Wolfram) have been obtained for many years from a deposit in Jodhpur (Rajasthan). In addition, one other small area in the Nagpur district is being

prospected with some hope for a small production. The production of Wolfram in 1953 was valued at Rs. 1,80,000.

India's gold output was about 239 thousand ounces valued at Rs. 5·62 crores in 1954; there was, however, a fall in output and value in 1955. The Kolar gold fields of Mysore produce almost the whole of the total output[1]. The four mines that are being worked at present are the Mysore,, Nundy-droog, Oregum and the Champion Reef. The reason for dimunition in production is that zones of lower grade have been reached. There has been a strong demand for nationalising the Mysore gold mines for a considerable time past and the Union Government have acceded to the demand. A Bill has been introduced in the Mysore Assembly for the purpose. Gold.

Gold mining on a small scale is carried on in Hyderabad. Very small quantities are also recovered from alluvium or gravel in U.P., Bihar, East Punjab, West Bengal and Madras. Small particles and occasional tiny nuggets of gold have recently been noticed in blacksands in parts of Bankura district (West Bengal) by the Geological Survey of India.[2]

Some other precious metals, namely, diamonds, Jad-stones, rubies and silver are produced in India in small quantities. Other precious metals.

Except for gold and a little silver recovered in the refining of gold, copper is the only other non-ferrous metal smelted in India. The production in 1954 was 3·4 lakh tons of ore, valued at Rs. 120 lakhs. Occurrences of copper-ore have been recorded in the Darjeeling district of West Bengal, in the Hazaribagh district of Bihar, in the Balaghat and Saugar districts of Madhya Pradesh, in Jaipur (Rajasthan), in Sikkim, in the Anantapur and Nellore districts of Andhra, in Chota Udepur in Bombay and in Garhwal in U.P., but no production of any economic importance has so far been reported from these areas. Copper.

[1] The attention of European prospectors was directed to this field by the numerous old indigenous workings. During the early eighties of the last century a large number of companies was floated with extravagant hopes, by 1885 they became moribund. By 1887, operations were, however, resumed, and up till 1905 the industry showed uninterrupted progress.

[2] K. D. Malaviya's speech in Lok Sabha, on the 7th September, 1956. He said: "The specific areas where the sands were available, (1) near confluence of the Kasai river and the Kumari Nadi, north of Ambikanagar, (2) in the Kasal river to the north-west of Simli, (3) Coast of Chirkunkanali-Mahespur, (4) in an irrigation canal about half a mile south south-west of Jorakend village, and (5) Nar Keshra village." He added: "It is understood that local gold washers recover a small quantity of gold every year by panning the black sands at several places."

Lead-zinc Ores. The most promising lead-zinc ore deposit in India appears to be the occurrence at the old mines of Zawar and Banjari in Rajasthan and this ore has also been found in Bihar, Bombay, Madras, Madhya Pradesh, Kashmir, Almora in U.P. and in Kulu Valley (Punjab). Steps are being taken to open these mines. Before the Second World War India imported all the lead and zinc she required from Burma and Australia. The output of lead metal produced in 1954 was 1790·3 tons valued at Rs. 23 lakhs and zinc concentrates 3,974·25 tons valued at Rs. 10·80 lakhs.

Tin. There appears to be no workable occurrence of tin ore in India, and, as a result,, she has to import all her requirements of tin. The only deposit of tin ore that is at present being worked occurs in Ranchi (Bihar). An output of 7 tons valued at Rs. 2086 was first recorded in 1952. It came down to 4 cwts., valued at Rs. 862 in 1953. There was no production in 1954.

Nickel and Antimony. There are no notable occurrences of Nickel and Antimony at present. But future investigation may lead to discovery of mines of these metals. There is only one refinery in the country for antimony production. Ore is imported. Owing to difficulty over ore supplies, there was a slight decline in production in 1955. Provided it is able to secure adequate ore supplies, the factory will be able to meet the entire demand of the country.

Bauxite. According to Cyril Fox, the Indian occurrences of aluminium ore (bauxite) are as large and of as high a grade as any in the world. The reserves of Indian Bauxite are roughly estimated at 250 million tons, largely in Ranchi (Bihar), Madhya Pradesh and Bombay, with a little in Vindhya Pradesh and also in Sub-Himalayan Kashmir. Small quantities of Bauxite have been used in India for preparing alum, for refining Kerosene and for making high alumina cement. An aluminium factory has recently been established near Asansol. The production of bauxite in 1954 was 74,747 valued at about Rs. 8¼ lakhs.

Mica. India has for many years past been the leading producer of mica. Practically all the Indian mica is exported to foreign countries. In 1950 the total export was valued at Rs. 9·08 crores. The United Kingdom and the U.S.A. are the chief importers of Indian mica. The downward trend in the output

of mica recorded after 1951, was arrested in 1955 and a turn for the better was witnessed.

India is the second largest producer of ilmenite in the world. The material is obtained from the beaches along the Travancore coast, and also from the Coastal belt of Ratnagiri in Bombay and along the East coast of India. In 1954 the production was 240 thousand tons valued at Rs. 79·80 lakhs. Ilmenite.

The Indian production of barytes occurs in parts of Madras and also in the Manbhum and Singhbhum districts in Bihar, in Orissa and in Alwar (Rajasthan). It amounted in 1954 to 18,792 tons valued at Rs. 2·6 lakhs. Most of this material is absorbed in the paint industry. Barytes.

The production figures of monazite are not published. A monazite factory for the manufacture of uranium and thorium used in the production of atomic energy was started at Alwaye in 1952. This project is a joint venture of the Central and Travancore-Cochin Governments. Beryl of Rajasthan and the monazite of Travancore are the two strategic minerals which are used in atomic fission. There are also pitchblendes in Gaya district of Bihar which may prove a workable source of uranium. Among other strategic minerals may be mentioned zircon associated with monazite in Travancore. Monazite.

Certain other mineral products deserve notice. Saltpetre or potassium nitrate was at one time an important article of export; and in the nineteenth century there were times when the average annual value of exports amounted to Rs. 900,000. But in 1950 the total output was valued at Rs. 6¼ lakhs. Saltpetre.

Mineral salt is produced in India, particularly in the Salt Range and in the Kohat Mines. Mineral Salt.

Other minerals worthy of mention, namely, ochre, graphite, gypsum, corundrum and steatite were produced in small quantities during the last year. Other Minerals.

Building materials and road materials are produced of the approximate value of Rs. 4·36 crore annually. Building and road materials.

The adoption of a proper mineral policy is a great necessity for the country. The First Five-Year Plan could not fix targets for raising minerals. The greatest flaw was the absence of a precise and exhaustive assessment of reserves. It has been proved by surveys undertaken in recent years, though on a Mineral Policy. Proper mineral policy needed.

limited scale, that the country's reserves of various minerals are much larger than was previously believed. On the availability of adequate essential minerals is dependent the development of basic industries in a vast country like India where potential internal requirements are almost unlimited. Apart from the needs of her growing industries, India requires considerable supplies of various minerals for her export market in order to strengthen the balance of her trade position.

Exploration.

Exploration of mineral resources is among the first duties of the Government. Also necessary is an unified direction of the policy of conservation and exploitation. The system of mining has not always been rational in this country. Methods have often been wasteful. The industry needs effective direction and guidance in respect of exploration, conservation and utilisation of minerals. Coupled with improved mechanical, chemical and metallurgical processes, scrap reclamation and recovery of secondary metals could make a significant contribution to the country's metal economy. Conservation appears to be nobody's business and upgrading of materials is almost unknown. There seem to be no laboratories where recovery processes are studied in relation to cost.

Geo-Physic Department needed.

The mining industry, specially the non-ferrous metals industry, has no statistical background. A complete picture of the resources is difficult to obtain in view of the industry's wide ramifications. A Geo-Physical department should be added to the department of Geology.

Dearth of skilled personnel.

Dearth of skilled personnel is a lacuna in India's mining industry. The need is not confined to specialists ; it includes foremen and skilled workers. Present training arrangements seem inadequate, and there should be continuous co-operation and co-ordination between universities, the industry and the government to step up the output of skill. The Industrial Policy Resolution of April 6, 1956, includes "the mining and processing of copper, lead, zinc, tin, molybdenum and wolfram in the group whose future development will be the exclusive responsibility of the State" but aluminium and other non-ferrous metals are to be "progressively State-owned".

The work done by the private sector should also be encouraged, and so far as possible, there should be co-operation

between the two sectors. But, if and when necessary, the Government may regulate and control the private sector and, in the last resort, start its own activities.

Non-ferrous ores development in 1956.

Despite these defects, the production of non-ferrous metals, like aluminium, copper, zinc, lead, tin and antimony which was of the value of Rs. 3 crores in 1951, rose to Rs. 6 crores in 1956, a rise of one hundred per cent. The National Industrial Development Corporation, a Government body, decided to establish an aluminium plant at Mettur in Madras State with a capacity of 10,000 tons per year. The Khetri Mines in Rajasthan is being intensified and if the copper deposits proved to be promising, a copper refinery of the capacity of 10,000 tons per annum, based on Khetri copper ores, would be planned. The Zawar Mines, operated by the Metal Corporation of India, have reached a 500 tons of ores per day capacity and are expected to reach a production of a thousand tons per day of zinc ores within the next two years. The installed capacity of the unit, which was producing antimony in the country, was more or less expected to meet the country's projected demand of antimony of 1,000 tons per annum by 1960-61.[1]

It is worthy of note that an Oil and Natural Gas Commission was appointed in August, 1950 and has begun to function at Dehra-Dun. The Commission will take active steps to expedite mineral oil exploration.[2]

[1] *A. I. C. C. Economic Review*, Feb., 1957.

[2] Sri K. D. Malaviya, Chairman of the Commission, stated on October 2, 1956 that the Government of India planned for a new agreement for controlled refinery with a capacity of one to two million tons a year. India's existing refineries, which have a total capacity of about 4½ million tons were built with foreign capital and management.

The drilling of the first test well ever made in West Bengal will commence soon.

CHAPTER VIII

PRODUCTION—(*Concluded*)

MANUFACTURES

History.

There was a time when India was one of the chief manufacturing countries of the world. Even as late as the eighteenth century, she was on a par with Europe in industrial production, and her manufactures found a ready market in many foreign countries. Until recent years, Indian industries were always worked by hand labour. The artisans inherited from their ancestors or acquired by experience a dexterity and delicacy of touch which was not surpassed by artisans of any other country. Not only did they supply the people with the articles of necessity, but they turned out works of art of great excellence.

Silk and cotton.

Muslins.

Manufactures in ancient and mediaeval India.

Silk and cotton fabrics and the metal industries attained great magnitude and remarkable excellence in many parts of the country. An eminent writer wrote many years ago: "In manufacture the Hindus attained to a marvellous perfection at a very early period. Textile fabrics of inimitable fineness, tapestry glittering with gems, rich embroideries and broacades, carpets wonderful for the exquisite harmony of colour, enamel of the most brilliant hue, inlaid wares that require high magnifying power to reveal their minuteness, furniture most elaborately carved, swords of curious forms and excellent temper are among the objects that prove the perfection of art in India."[1] In the words of Sir William Hunter, "the industrial genius of her inhabitants, even more than her natural wealth and her extensive seaboard, distinguished her from other Asiatic lands." The handicrafts were very often practised

[1] So also M. Martin in his *Indian Empire* says: "The gossmer muslins of Dacca, beautiful shawls of Cashmere and the brocaded silks of Delhi adorned the proudest beauties at the courts of the Caesars, when the barbarians of Britain were painted savages. Embossed and filigree metals, elaborate carvings in ivory, ebony and sandal-wood; brilliant dyed chintzes, diamonds, uniquely set pearls and precious stones, embroidered velvets and carpets, highly wrought steel, excellent porcelain, and perfect naval architecture—were for ages the admiration of civilised mankind, and before London was known in history, India was the richest trading mart of the earth."

on a fairly large scale, and they gave rise to big and wealthy towns. Different varieties of manufactures were produced in different parts of the country. But Bengal was specially famous for the vast quantity and excellent quality of her manufactured products.[1]

Their excellence.

In the latter part of the eighteenth century, the industrial revolution began in Europe, and the older methods of production were completely superseded by new ones. By the adoption of methods which saved labour and materials, and by the utilisation of by-products, goods began to be turned out at a much cheaper cost. Machinery supplanted hand labour, large amounts of capital began to be invested in every industry, production on a small scale gave place to large-scale production, and a better organisation was introduced. This great change led to a phenomenal increase in the productive power of the West. Indians, however, remained unaffected by the change. No attempt was made to render the Indian industries more efficient by reorganising them on modern lines. To these defects in production were added the efforts of the East India Company and of the British Government to ruin the indigenous industries of the country. For some time the industries struggled for life, but were ultimately killed or crippled by competition with foreign manufactures, aided by state action. Other contributory factors combined to bring about the same result. The ruling chiefs and princes were great patrons of India's indigenous arts and crafts, and their gradual disappearance deprived the artisans of a good volume of support and patronage. The result was that by the middle of the last century India found herself reduced to the position of an almost exclusively agricultural country.[2]

Causes of their decay.

[1] Bernier, who visited India during the reign of Aurangzeb, wrote: ". . . Bengal abounds also in sugar with which it supplies the kingdoms of Golkonda and Karnatic, where very little is grown, and Arabia and Mesopotamia, through the towns of Moka and Bassora, and even Persia." He further observed: "There is in Bengal such a quantity of cotton and silk, that the kingdom may be said to be the common storehouse for those two kinds of merchandise, not of Hindusthan, or the Empire of the first Mogul only, but of all the neighbouring kingdoms, and even of Europe." He added: "The rich exuberance of this country . . . has given rise to a proverb in common use among the Portuguese, English and Dutch that the kingdom of Bengal has a hundred gates open for entrance, but not one for departure."

[2] Sir William Hunter says: "Many circumstances conspired to injure the Indian industry in the last century. England excluded these fabrics

Tendency towards improvement.

All industrial activity and enterprise remained paralysed for a long time. In the last quarter of the nineteenth century, however, a distinct tendency to a better state of affairs was discernible. In spite of the various difficulties in the way of an industrial regeneration, some advance has actually been made during the last five or six decades. People have now begun to realise the advantages of co-operation and combination. Ignorance and apathy are gradually disappearing before a fresh energy and a new spirit of enterprise. Educated India is taking more and more to technical and industrial education in order to obtain a mastery over nature. Capital is gradually overcoming its proverbial shyness. Steam is fast superseding hand-power, and a substantial advance is being made in the utilisation of electricity. Serious attempts are being made to revive old industries and start new ones.

Difficulties are being overcome in part.

The chief industries.

A brief review of the more important of the industries will give an idea of the present industrial position of the country. The industries may be classified under the following heads:

not by fiscal duties but by absolute prohibition. A change of fashion in the West Indies on the abolition of slavery took away the best customers left to India. Then came the cheapness of production in Lancashire, due to improvements in machinery. Lastly, the high price of raw cotton during the American War, however beneficial to the cultivators, fairly broke down the local weaving trade in the cotton-growing tracts . . . And whilst on the one hand the downfall of the native courts deprived the skilled workman of his chief market, on the other hand the English capitalist has enlisted in his service forces of nature against which the village artisans in vain try to compete. The tide of circumstances has compelled the Indian weaver to exchange his loom for the plough, and has crushed many of the minor handicrafts."

That eminent historian, H. H. Wilson, says: "It is also a melancholy instance of the wrong done to India by the country on which she had become dependent. It was stated in evidence that the cotton and silk goods of India up to this period could be sold for a profit in the British market at a price from 50 to 60 per cent. lower than those fabricated in England. It consequently became necessary to protect the latter by duties of 70 or 80 per cent. on their value, or by positive prohibition. Had this not been the case, had not such prohibitory duties and decrees existed, the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the powers of steam. They were created by the sacrifice of Indian manufacture. Had India been independent, she would have retaliated; she would have imposed preventive duties upon British goods, and would thus have preserved her own productive industry from annihilation. This act of self-defence was not permitted her; she was at the mercy of the stranger; British goods were forced upon her without paying any duty; and the foreign manufacturer employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have contended on equal terms." (*History of India*, vol. i. pp. 538, 539, note).

(1) textiles; (2) food, drink and stimulants; (3) ferrous metals; (4) mechanical engineering; (5) non-ferrous metals; (6) electrical engineering; (7) chemicals and (8) miscellaneous.

Weaving is the most important industry of the country next to agriculture. There was a time when handloom weaving reached a perfection in the production of fine cloths. Indian *muslins* were once regarded as fabrics of unrivalled delicacy and beauty, and these used to be exported to European markets. Handloom weaving, however, suffered greatly in competition with Manchester mills and lakhs of workers were thrown out of employment. The weavers of Bengal, whose fame had at one time extended all over Europe, suffered most from foreign competition. But the industry is not altogether dead. A great impetus to this industry was given by the *Swadeshi* Movement of 1905-11 and, some years later, Mahatma Gandhi's socio-political movement gave a push to the production of *Khaddar* or coarse home-woven cloth. **Weaving.**

The preliminary processes of ginning, cleaning, pressing, and spinning are also important industries by themselves. Formerly, cotton used to be hand-ginned, mostly by women. But now hand-ginning has been superseded to a very large extent by power-gins. Cleaning and pressing are very often combined with ginning in the same factory. Spinning of cotton yarn was for a long time a domestic industry, being in many cases the chief occupation of women. The future development of spinning in India must depend on the increase in the number of power-spindles operating in mills. **Ginning, Cleaning, Pressing, and Spinning.**

During the last half-century there has been a great development of the mill-weaving industry in many parts of India. The first power-loom was started in India by Mr. Davar of Bombay in 1854. The industry made gradual progress during the next five decades mainly in Bombay and Ahmedabad. The Swadeshi Movement of Bengal gave a great stimulus to the industry in the year 1905-11. **Weaving mills. Gradual Progress. Swadeshi Movement.**

The First World War interfered with the supply of cotton goods from abroad, and brought in its train very high prices. It thus gave a great impetus to the development of the cotton-mill industry in India. The Government also had to place orders with the Indian mills for *khaki* cloth required for soldiers in the eastern theatre of the war. Another factor which helped **Effects of World War I.**

the growth of the industry was the change in the state policy accompanying the Montagu-Chelmsford Reforms.

Removal of cotton excise. The cotton excise duty which had been a real handicap upon the growth of this industry was removed in 1925. But the most important step taken in this direction was the grant of protection. **Grant of protection.** Some measure of protection was granted by the Government, after considerable hesitation, against cheap imports of cotton goods in 1927. A more important step was taken in April 1930, raising the duty on all varieties of cotton piece-goods.

Extension of protection. Once the policy of protection was adopted, it continued with great vigour. The duties were raised in March 1931, and again in November of the same year. During 1932-33 the Government raised the duties of Japanese piece-goods in order to counteract the effects of Japanese competition. The duties thus imposed were to remain operative till 1939. But in 1935 the duties on the imported cotton piece-goods from Great Britain were reduced on the ground that higher duties were not required for protection. **Duties on British piece-goods reduced.** The Indo-British Trade Agreement of 1935 also committed the Government to a reduction of the duties on British piece-goods. These actions were regarded as repeated attempts on the part of Britain to help the British textile industry at the expense of the textile industry of India. Protection was continued till 31st March 1942, and was further extended to March 1947.

World War II. The Second World War put a heavy pressure on the cotton textile industry of India. It was called upon to devote 60 per cent. of its installed capacity to production for the Armed Forces and at the same time it had to meet increased demands from abroad and the general body of consumers within the country. Consequently, the industry passed through a prolonged period of prosperity and expansion.

Partition of 1947. Partition deprived India of the raw cotton produced in Sind. Mills were obliged to turn to the Indian varieties of cotton, and there were increases in the prices of some varieties of cloth and yarn. The importation of raw cotton at high prices also tended to raise the prices of piece-goods. Therefore, the production of superior quality cotton in India as an ultimate solution was envisaged. About the middle of the year 1950 ceiling prices of raw cotton were substantially raised, which

resulted in a large increase in cloth prices. During the year 1949 and the first nine months of 1950 the cotton industry had to face many troubles and some mills were obliged to close down. The strike of mill labour also added to the difficulties of the situation. In 1953 there were 458 cotton mils employing 7·5 lakhs of workers, the total output being 4,900 million yards of cloth, of which 678 million yards were exported. In 1955 the total production by the mills was nearly 5,087 million yds. and in the same year there was an export of 815 million yards. The cotton mill industry with a paid-up capital of Rs. 104 crores not only ranks as India's largest industry but also the second largest of its kind in the world. The industry celebrated its centenary in 1954.

Number of cotton mills, output, capital.

The cotton textile industry has for some time past been faced with a number of problems, the solution of which is urgently called for. The most important among these problems are as follows:

Problems.

In the first place, there is the difficulty in regard to the raw material. To remove this difficulty, a larger quantity of long staple cotton should be grown in India but the importation of some quantities will be necessary for some time longer. Secondly, the equipment of the textile factories has become almost entirely out-worn and obsolete. Not only is replacement necessary but more up-to-date machinery should be brought into use. This can be done only through Government assistance in the shape of allowing greater depreciation and the grant of long-term loans at low rates of interest. Thirdly, labour productivity is very low in India. This defect can be removed by better training being given to the labourers and pointing out to them that it is to their own interest to work more and better. Fourthly, management in some cases is very inefficient. This deficiency must be removed from within; but, if necessary, Government control will have to be exercised. Fifthly, the price of cotton textiles is still inordinately high. This question should be tackled by larger and more efficient production. In this connection the question of rationalisation should be regarded as of great importance. Labour representatives are strongly opposed to it on the ground of the possibility of the loss of jobs by many labourers. The Government have, however, agreed to the introduction of rationalisation.

Raw material.

Factory re-equipment

Increased labour productivity.

More efficient management.

Rationalisation.

provided the principle is given effect to in gradual stages in order to prevent unemployment on a large scale. Sixthly, the policy of Government in regard to production is inconsistent. The target of production was fixed moderately high in the First Five Year Plan. But production is now impeded by various devices such as restriction on output and the imposition of excise duties. Additions to excise duties have been made several times; but the most outstanding has been the latest levy which brings an additional revenue to the Government to the extent of Rs. 17·5 crores. This levy has caused great discontent throughout the country and led to opposition from all classes of the people. It is most undesirable to tax cloth which is the poor man's most fundamental necessity next to food. Therefore, it is the incumbent duty of the Government to reduce the excise taxes substantially and take steps to increase production so that there may be adequate consumption within the country and a considerable surplus for export.[1] Seventhly, the export market is considerably disturbed by frequent and thoughtless changes in Government policy. This also affects production. It is to be hoped that the Government will adopt a more reasonable and stable policy in the near future. Moreover, exports which are sent out to foreign countries are not always of a good and uniform quality. To remove this defect the mill authorities should exercise, and the Government should insist on, an adequate measure of quality control.

Taxation.

Excise duties.

Trade policy.

Exports.

Quality control.

Knitting.

Allied to weaving is knitting. This industry can give employment to a large number of women who may be engaged to work with small machines in their own homes for piece-wages. Recently, there has been a considerable increase in the number of hosiery factories operating in India. Japanese competition in the market for hosiery products was very keen at one time, but the Indian factories were aided by the protection granted to them.

Other cotton industries are those of rope-making, carpet-making, tent-making, etc. Cotton carpets or *durries* form an important industry in U. P.

The manufacturing industry in silk is mainly confined to

[1] As a matter of fact, there was a fall in export in 1955 by 9 per cent as against the exports of 1954.

hand-loom weavers, and the chief centres are Kashmir; Amritsar and Jullundar in East Punjab; Banares and Shahjahanpur in U. P.; Murshidabad, Malda, Bankura and Bishnupur in West Bengal; Nagpur in Madhya Pradesh; Bhagalpur in Bihar; and many scattered areas in Bombay, Mysore and Madras. Silk-weaving.

The process of weaving silk is the same as that of cotton, but it requires greater care, and the use of a specialised machinery. During the early years of the administration of the East India Company, the silk industry in India was in a thriving condition. Large quantities of Bengal silk used to be exported to England during the last quarter of the 18th century. Even as late as the eighties of the last century the value of the silk manufactures exported from India amounted to a large sum. But in recent years the value of exported silk goods has dwindled down to a negligible figure. The reason which have caused the decline in the export of Indian silk goods are mainly two: first, there has been an immense development of the silk-manufacturing industry in Europe, U.S.A., Japan, and China; and secondly, the introduction of rayon or artificial silk has caused a great decline in the demand for genuine silk products. The Textile Protection Act of 1934, however, rendered some help to the silk manufacturers of India by imposing protective duties on raw silk, silk yarn, silk piece-goods, and on rayon and rayon products. In 1949, the protective duty on raw silk was greatly increased. Thriving industry. Foreign competition. Substitute.

Recently, the Central and State Governments have taken an interest in the development of the silk and artificial silk industries. Restrictions are being placed on the imports of silk and artificial silk products, while exports of indigenous silk and artificial silk fabrics are allowed freely at present. If the silk industry be revived by proper measures of encouragement, silk goods may become an important dollar-earner. Recent assistance.

During and after World War II, on account of an acute shortage of cotton textiles, a number of artificial silk weaving mills grew up in the country. The estimated production of rayon fabrics is 350 million yards per annum, of which about 200 million yards are consumed within the country. The export of rayon fabrics thus assumes a very important aspect in the economy of the country. The heavy duty levied by the Rayon.

Government on imported yarns constitutes the main handicap on production. The imposition of excise duty on rayon cloth also affects internal consumption. Steps should, therefore, be taken to foster this industry by increasing the local production of yarn.[1]

Woollen industry.

The indigenous woollen industry of India suffered much in competition with cheap German goods. In East Punjab, Uttar Pradesh and Bombay, a number of woollen mills is now working. Woollen carpets of good quality are made in Uttar Pradesh, East Punjab, Kashmir and in some parts of Rajasthan. Indian mills produced 20 million lbs. of woollen goods in 1955. The scarcity of raw material of a good quality is an obstacle to the growth of the industry.

In recent years the Central and State Governments have taken a keen interest in the problems of the woollen industry. In order to explore the possibilities of further development of the industry, a Wool Development Committee has been formed and a Central Woollen Technological Institute has been established. The recent importation of Australian sheep and further importations in the near future are expected to bring new life to India's woollen industry.

Jute.

Jute supplies the raw material for the manufacture of gunny bags and other articles used for packing purposes. The first jute-spinning mill was erected at Rishra near Serampur in 1855. It was followed four years later by the first power-loom factory at Baranagar. Since then, both the banks of the Bhagirathi have been dotted over with the smoking chimneys of jute mills.

First World War.

The First World War gave a great stimulus to this industry as gunnies were largely required for war purposes and the industry paid fabulous dividends. The number of mills went on increasing and the capital invested rose rapidly. But the world-wide depression of 1929-33 exercised an adverse influence over the jute industry. The Second World War offered an easy solution of the problem which faced the jute industry by providing an effective stimulus. Partition of 1947 adversely

World War II.

Partition.

[1] The rayon piecegoods industry is somewhat uncertain of its future prospects . . . . . The main difficulty relates to the price and supply position of yarn—the single most important factor, and it is the vital raw material that accounts for most of the cost of production of the finished fabric. (*Capital*, August 3, 1956).

affected the Indian jute industry and created an anomalous situation. Eastern Pakistan produced most of the superior quality jute and the quantity of raw jute produced in India was shorter than the demand.

Duty on raw jute.

Pakistan levies a very high duty on raw jute crossing its land frontier. The industry today is one of the greatest earners of foreign exchange and a large employer of labour. The expansion of jute cultivation in India is thus a pressing problem of the day. Strenuous efforts have recently been made by the Indian Union to produce more raw jute of good quality in West Bengal, Assam, Orissa, U. P. and South India, with the result that the amount of jute crop more than doubled itself in 1953-54 as compared with 1947-48. Jute manufactures stood at $8\frac{2}{3}$ lakh tons in 1953 and in 1955 at $10\frac{1}{4}$ lakh tons.

The chief attraction of jute lies in its comparative cheapness. Today the industry faces the competition of substitutes. But jute has certain natural advantages amongst which greater strength and re-use value are more important. South Africa is making frantic efforts to find a cheap substitute for jute bags. In the U.S. market the competition of paper bags is very keen. The active competition of Pakistan is also not negligible. Under these circumstances, the industry can only survive by reducing its cost of production. Rationalisation seems to be the only way out of this impasse.

Modernisation.

The lowering of the duty in the recent past has improved the industry's position, vis-a-vis its competitors. The industry is keenly alive to the need for reducing its manufacturing costs by continued and increased modernisation of machinery. The Government is also considering how best it can assist the industry in this regard because it appreciates the importance of maintaining India's supremacy in jute manufactures. Rationalisation is absolutely necessary, but it should be carried out by gradual steps.[1]

Jute Enquiry Commission.

[1] A Jute Enquiry Commission was appointed in August, 1953 to consider the problems faced by the jute industry. The Commission published its report in May, 1954 recommending the appointment of a Jute Commissioner, establishment of a Jute Board and a Jute Development Council for the purpose of assisting and stabilising the industry. The Commission also suggested the opening of regulated markets at important centres in the jute growing areas of each State, exemption of raw jute from sales tax and other similar levies, 'fair parity' between the levels of prices for raw jute and jute goods, re-establishment of a proper futures

Sugar.

Sugar used at one time to be one of the important small-scale industries of India and has now become one of the biggest large-scale industries in the country. This new development of the sugar manufacturing industry is a story of a short period. Germany's bounty-fed sugar had given the first shock to the old sugar industry of India. The Indian Sugar Committee of 1920 very exhaustively dealt with the question of the production of sugar in the country. They pointed out that the production of sugar per acre in India was extraordinarily low in comparison with the other cane-growing countries. This was due to the antiquated and inefficient methods involving a heavy loss of sucrose. The problem of development of the sugar industry hinged on the increase of the yield per acre.

Sugar Committee, 1920.

The Committee was of the opinion that the yield of sugar depended on agricultural as well as industrial factors. As regards agricultural factors, the selection of the right variety of cane was considered the most important. Successful experiments were conducted not only with the indigenous varieties, but also with exotic ones. Manuring and irrigation were other important factors. The possibilities of the introduction of motor tractors were also explored.

Recommendations.

The Committee made important suggestions regarding the construction of furnaces, the boiling of the juice and the refining of sugar, some of which were adopted by the manufacturers with profit.

In 1925-26, there were 23 factories in India which produced sugar direct from the cane. At first these factories were small in size, and their total outturn was inconsiderable. There was the difficulty in regard to the supply of the raw material, for the production of cane was mostly dispersed. Over and above all these was the strong competition from Java.

Protection.

The case for protection of the Indian sugar industry with a view to making India ultimately self-sufficient in respect of this commodity of everyday necessity was naturally a strong one. The Sugar Industry Protection Act, 1932, imposed almost prohibitive duties on imported sugar. The real history of the

Rationalisation suggested.

market and reduction in freight by both railways and river transport companies. The Commission strongly urged the introduction of the principle of rationalisation, though this would require forbearance and gradualness on the part of both labour and capital for some time to come.

large-scale sugar-manufacturing industry of India began from that year.

Under the shelter of protection, there was a phenomenal development in sugar production between 1932 and 1938. Unlike many other industries, the sugar industry was very little affected by World War II. In 1947-48, production from 135 factories stood at 10·77 lakh tons. The total output in 1952-53 was above 13 lakh tons and it stood at about 16 lakh tons in 1955.

The war-time control on sugar was removed in 1947 but this decontrol was not a success. The control was reimposed, but owing to the continuance of black-marketing and the inefficient methods of control exercised by the Government the price of sugar continued to be high. As a matter of fact, governmental controls have proved neither useful nor beneficial, and their complete withdrawal has been demanded. This may lead to sufficient expansion adequate for increasing local consumption, which is very low compared to other countries, as well as for exporting considerable quantities.

Difficulties.

The sugar industry has faced various difficulties, arising chiefly from ill-planned distribution of the factories, from inefficient marketing, and from erratic competition. The average 'recovery' or yield of sugar from the cane is about 10 per cent. as compared with 11·9 per cent. in Java, 12 per cent. in Cuba and 14 per cent. in Australia. This low recovery is partly due to the poor quality of the cane-cut. The root cause of low recoveries in India consists in the original size and lay-out of the plant, the faulty design and quality of the machinery, and not the least in the inefficient operation of many of the factories. At the same time, there are some factories in India which can stand comparison with the best in Java and elsewhere in respect of machinery lay-out and operation of the plant. It may be hoped that the increasing experience of the factory-owners and the guidance of scientific experts will enable the industry to make more satisfactory progress in future so as to provide for sufficient local consumption, as well as for an exportable surplus.

Oils and oil industry.

Oils and oil-seeds form useful industries throughout the country, but there is ample room for their further expansion and improvement. The export of seeds involves an immense

loss to the country, and the development of industries in connection with them is sure to be useful both in a direct and in an indirect way. It is worth noticing that oil-seeds and oils constitute an important exchange-earner. Vegetable oil production stood at 2,60,760 tons in 1955.

These oil-seeds produce many useful articles that are required for making soap and glycerine, for serving as lubricating agents and as cooking ingredients. In recent years there has been a great increase in the number of mills worked by steam and other mechanical power, especially in the case of mustard oil, castor oil and groundnut oil. Oil indusrry should be developed in such a way that oil may be partly exported, but oil-cake may be retained in the country.

Vanaspati oil industry.

A particular type of industry which has developed in recent times is the *Vanaspati*. From a small beginning in 1930, it has attained an important place in the industrial structure of the country. The prohibitive prices of *ghee* and the easy supply of cheap raw materials were the two most notable contributory causes of the rapid growth of the Vanaspati industry during the Second World War. In 1956 the total production was nearly two lakh tons as against 18,000 tons in 1955.

Obstacles.

At present the industry has to face many difficulties. The export of groundnuts implies a corresponding loss of raw materials to the industry. The groundnut export policy should, therefore, always give adequate consideration to the needs of the *Vanaspati* oil industry.

Rice-hulling, Wheat-milling, etc.

The manufacturing industries connected with food-grains are rice-hulling, wheat-milling, bakeries and biscuit manufactures. Flour mills have been for some time past working in many towns, but in the villages milling is still done mainly by hand. Small machines are now extensively used for rice-hulling, and handy flour-mills are also coming into general use. In West Bengal, Bombay, East Punjab and several other States biscuit factories have been started.

Salt.

Manufacture of salt has been progressing rapidly, the target of 837 lakh maunds to be attained by 1955-56 being surpassed by 23 lakh maunds during 1953. Exports also showed a slight upward trend. A cess at Rs. -/3/6 per maund on salt produced in Government factories and Rs. -/2/- per maund in private factories has been levied with effect from 2nd January, 1954.

The proceeds from the cess are to be utilised for the purpose of development of the industry.

Tobacco.

The tobacco industry is very extensive. But it is suffering acutely from competition with foreign products, specially American. The tobacco industry is vigorous in some parts of Madras State. The cigarette industry made rapid progress during World War II. The technique of cigar- and cigarette-making has not yet been fully studied. The Indian enterprises in cigarette-making generally turn out articles of inferior quality. Recently, some British cigarette-manufacturing companies have started branch factories in India. In 1955, 2,090 crore cigarettes were produced.

Metal industries.

Its excellence.

Sir T. Holland's view.

In the metal industries many of the local handicrafts attained considerable magnitude in the remote past. "The high quality of native-made iron," said Sir Thomas Holland, "the early anticipation of the processes now employed in Europe for the manufacture of steels, and the artistic products in copper and brass gave India at one time a prominent position in the metallurgical world." The art of smelting iron, of welding it, and of making steel was known to the Hindus "from time immemorial".

In ancient times.

Western processes.

In ancient times the people of India acquired a fame for metallurgical skill, and the reputation of *wootz* steel, which was made in India long before the Christian era, spread far and wide. But the wasteful indigenous process of smelting iron in small furnaces with wood fuel was a great drawback on the growth of the iron industry. The manufacture of pig-iron and steel in India by European processes was marked by conspicuous failures during the greater part of the nineteenth century. The first scheme that proved a financial success was the Barakar Iron Works, started in 1874 and acquired by the Bengal Steel and Iron Company in 1889. Even here profits ensued only after the lapse of 25 years since the starting of the works.

Modern developments.

The growth of the steel industry of modern India was due to the discovery of huge iron deposits by the great Geologist, P. N. Bose, and the phenomenal enterprise of J. N. Tata. Their efforts resulted in the establishment of the Tata Iron and Steel Company at Sakchi (later known as Jamshedpur) in 1907. The Company was planned on bold lines, and from 1911, when it

first commenced operations, it has been producing large and steadily increasing amounts of iron and steel goods. World War I gave an effective stimulus to the iron and steel industry. Large quantities of railway materials required for the eastern theatre of the war were purchased in India, and encouraged by this considerably increased demand, the Tata Iron and Steel Company launched upon a scheme of expansion which was finally completed in 1924. Other companies manufacturing iron and steel also came into the field, of which the Indian Iron and Steel Company, the Bhadravati Iron Works (Mysore) and the Indian Steel Corporation of Bengal deserve mention.

Protection. In the development of the iron and steel industry, perhaps the most important part was played by the protection extended to it in 1924 and continued nearly for a quarter of a century. The Tariff Board in 1924 observed: "The market is large, and with the expansion of demand, provided there is an adequate extension of transport facilities, there would be room for two or three steel-works each with an output comparable to that of the works at Jamshedpur." In recommending the case of this industry for protection, the Tariff Board pointed out that—(1) India possessed great natural advantages for the manufacture of steel owing to the richness and abundance of iron-ore deposits and the comparatively short distance which separated them from coal-fields; (2) the continued existence of steel manufacture in India was in grave jeopardy, and unless protection was given there was no prospect of future development; and (3) the natural advantages were so great that eventually steel manufacture in India should be possible at as low a cost as in any other country.

The Tariff Board also emphasised the importance of the industry as a key industry and as a pre-requisite of safety and defence. The Government, accepting these recommendations,
1924. imposed in 1924 duties on foreign imports of certain varieties of steel products and granted bounties on the manufacture of
1925. certain others. In 1925, on account of a marked fall in the prices of foreign imports additional bounties were temporarily
1927. granted. In 1927, protection was renewed, and for the first time different rates of duties were imposed upon British and non-
1932. British steel. In 1932 the duties had to be revised to give effect to the terms of agreement reached at the Ottawa Conference.

In 1933, it was decided that the protection would be continued to operate till 1941.

The industry experienced a long spell of expansion during World War II, following large Government, Railways and overseas orders. The rapid expansion of ordnance factories and heavy and light engineering works placed a great pressure upon the industry. The total production increased continuously till 1943. After this peak period production gradually declined and reached a considerably lower level in 1947. In 1953, the position was slightly better, the production of finished steel in that year being 10·18 lakh tons as against our present requirements of about 25 lakh tons and in 1955 the production was 12·6 lakh tons. World War II.

Since the beginning of the war, the Tatas have not only been improving the quantity of steel ingots and finished steel, but also producing diverse products made of finished special steel. A Wheel Tyre and Axle Company is being operated by the Tatas which supplies to our Railways a considerable part of their requirements of wheels and axles at rates very much lower than foreign prices. The Tatas are also producing special alloy steel called Tiscor and Tiscrom.[1] Tiscrom is an alloy of high tensile strength containing chromium, manganese and copper. During the period of the war, the Tatas added to their manufacture a considerable number of special alloy and tool steels which made imports of these articles unnecessary. They are also making high silicon sheets required for lamination purposes in motors. The Tata Locomotive and Engineering Co., a subsidiary of the Tatas, has successfully initiated the manufacture of boilers for locomotives and road rollers. The Tatas.

They also made special alloy steel products for meeting the direct demands of the war, *e.g.*, bullet-proof armour plates, special steel for cartridge cases and for rifle and machine gun magazines, stainless steel for surgical instruments, etc.

The Steel Corporation of Bengal, the second biggest steel-producing unit in the country, began operations during the Second World War and rendered unique services to India and the Allies. But for its establishment just before the war, the country would have been in a bad way in regard to the Steel Corporation of Bengal.

[1] D. C. Driver, Lectures delivered at the Calcutta University, 1950.

supply of steel. Two particulars may be noted about this unit. It has suffered more from labour troubles than other units, which explains its comparatively low production. But it has a large unused capacity in its finishing departments. The Priorities Committee of the Cabinet approved of the Corporation's expansion plans which proposed to expand the output of semi-finished steel at an estimated cost of Rs. 5 crores in the first stage and Rs. 12 crores in the second stage.

Expansion schemes. In 1950 the Tatas, the Steel Corporation of Bengal and the Mysore Iron Works framed schemes for considerable expansion and modernisation of their plants and the Government decided to help these companies. The expansion scheme of the Tata Iron and Steel Co. Ltd. was designed to secure an increase in production from the existing capacity of 750,000 tons per annum to 931,000 tons per annum and that of the Indian Iron and Steel Co. from 280,000 tons to 650,000 tons a year besides setting up a blast furnace capable of producing 450,000 tons of pig iron a year. The Mysore Iron Works formed a plan to step up production from 40,000 to 100,000 tons.

Steel Corporation. There was a merger of the Indian Iron and Steel Corporation Co. with the Steel Corporation of Bengal with effect from 1st January, 1952, which was expected to increase the output largely and to work in a more efficient and economical manner. A scheme of expansion costing about Rs. 35 crores was approved. To put this through, a loan of Rs. 15 crores from the World

Merger. Bank was negotiated and the Government of India guaranteed this loan. In addition, a special advance of Rs. 10 crores was sanctioned.

In the altered context of future demand, it was decided in 1955 that Tatas and Indian Iron and Steel Co. should increase their annual capacity further to 1·5 million tons and 800,000 tons respectively. The Tata Iron and Steel Co. Ltd. decided, in consultation with the Government of India, to expand the company's production beyond the target of 1·3 million tons of steel ingots to 2 million tons at an estimated cost of Rs. 75 crores. The programme of expansion was to be financed out of (1) the increase of Rs. 61 per ton in retention price granted in 1955, (2) a loan of $75 million from the World Bank, an agreement for which was concluded in June, 1956, and (3) the fresh capital issue made in March, 1956, for which 1,285,000 new

ordinary shares were offered at a premium of Rs. 30 each, the whole of which has virtually been subscribed. Briefly, the terms of the World Bank loan agreement were: (1) the loan would be underwritten by the Government of India, (2) will carry interest at the rate of $4\frac{3}{4}$ per cent. and (3) it was for a period of of 15 years, repayable in instalments commencing from 1960.

In August, 1953, an agreement was entered into between the Government of India and Krupps and Demag, the world famous steel firms of Western Germany providing for the technical and financial participation of those firms in the construction of a new steel plant with an initial capacity of half a million tons. A private limited company under the name Hindusthan Steel Ltd. was formed with an authorised capital of Rs. 100 crores. The project was estimated to cost about Rs. 71·25 crores, the German combine contributing about Rs. 9·5 crores. The plant has been located at Rourkela in Orissa on the main lines connecting the coal and iron fields.

Hindustan Steel Ltd.

The second steel plant in the Public Sector will be put up at Bhilai in Madhya Pradesh. Under an agreement with U.S.S.R., the Plant will be designed and supplied by the Soviet Union. Production on a commercial scale may start at Bhilai sometime in 1959.

Bhilai Project.

The third steel plant in the public sector is proposed to be located at Durgapur (West Bengal). A British Steel Mission, recommended Durgapur as the suitable cite for the new steel plant. A group of steel interests in Britain offered to act as the main contractors and the production is likely to begin in 1959.

It must be noted that India has not yet attained self-sufficiency in steel products. In the past she had to depend for her supply of steel to a great extent on external sources. But gradually this dependence has substantially declined. Steel is the most important foundation of modern industry.[1] If vigorous efforts are now made, the day will not be far distant when India will be able, not only to fully meet her own requirements but also to export steel fabrics abroad.

[1] Steel production in the United States is over a hundred million tons a year. Next comes the Soviet Union with 40. Britain follows with 18, Germany with 17 and France 10. Belgium produces five million tons; tiny Luxemburg and the Saar, each produces three million tons. In the East, Japan leads easily with over five million tons. *Journal of Industry and Trade*, November, 1955.

Subsidiary industries.

The development of the Government policy with regard to the industries depending on the iron and steel industry has proceeded on lines similar to those relating to the main industry itself. Among these subsidiary industries, we may mention the manufacture of tinplate, enamel ware, wire and wire nails, iron and steel castings, fabricated steel, tools and implements. To protect the interests of the engineering industry, duties had to be imposed on the imports of fabricated steel from abroad. Bounties were granted to the wagon industry and heavy import duties were levied on imports of foreign tinplate. Similar protection was granted to the manufacture of wire and wire nails. These industries occupy a prominent place in the economy of India at present.

Mechanical engineering industries.

Of the mechanical engineering industries the agricultural machinery industry is the most important. At present three distinct categories of agricultural machinery are used in the country: (*i*) indigenous agricultural implements, (*ii*) improved agricultural implements, (*iii*) power-driven agricultural machinery including power-driven pumps, diesel engines and agricultural tractors. In 1955, 10,000 diesel engines and 34,010 power-driven pumps were produced in India.

Of the non-agricultural machinery, automatic looms, grinding wheels, carding engines, sewing machines, etc., are also manufactured in small quantities. But large imports of machinery are still necessitated by the inadequacy of engineering industries. Engineering workshops in India are devoted mainly to repair work or to the manufacture, mainly from imported materials, of comparatively simple machines. This is undoubtedly one of the greatest industrial deficiencies of India. If a forward policy of industrial expansion is to materialise in the near future, the development of machinery-construction industries on a large scale must be taken in hand immediately.

Machine tools industry.

A stable and well-developed machine-tool industry is very necessary for the economy of a country alike in peace and war. In India, this industry received an impetus during World War II. In the post-war period it took to new lines of production. The quality of indigenous machine tools now compares favourably with that of the imported ones. In 1955 there were 17 graded firms having an installed capacity of turning out machines worth about 1·42 crores of rupees, while about 105

ungraded firms spread all over the country not solely engaged in the manufacture of various types of machine tools but having activities in other industries also. The present production does not meet the total requirements of the country.

The manufacture of small tools was started just before World War II and made progress during the war. The industry, however, received a set-back in the immediate post-war years when the Government came to its rescue and restrictions were imposed on the imports of certain small tools. At present various types of implements are being produced in large quantities to meet the entire demand of the country. The quality of indigenous tools has also improved.

Light engineering industry.

A number of light engineering industries which were started during World War II have made marked progress during recent years. The wood screws industry can now meet the country's entire demand. A notable headway has also been made as regards machine screws, bolt, nuts and rivets and expanded metal industries, some quantities of which are also exported.

National Instruments Factory.

The National Instrument Factory which was established in 1949 in Calcutta has made a good beginning, the level of production and repair-work being fairly high in 1953-54. Production, including repairs, in 1954-55 was valued at Rs. 21·56 lakh. Some new items of manufacture, like theodolites, high-temperature thermometers and certain new processes have been developed. The plan of reorganisation of this factory is well under way. Cutleries have been in existence for some years in different parts of the country. The lock-works of Aligarh and Hathras have been doing very good business for a long time past. The manufacture of steel trunks is fast becoming a very useful industry.

Cutleries, steel trunks.

Automobile industry.

A strong automobile industry is an essential necessity for defence as well as for ordinary purposes. But this industry in India is still in an infant stage. Before World War II there were only two factories in India, *viz.*, General Motors Ltd. and Ford Motors Ltd., who were engaged in the assembly of motor cars and trucks.

Hindusthan Motors. Premier Automobiles.

In 1944, two companies, the Hindustan Motors Ltd., Calcutta and the Premier Automobiles Ltd., Bombay were established with a programme for the progressive manufacture of complete

automobiles. The former entered into technical collaboration with Morris Motors Ltd., England and with Studebaker Corporation, U.S.A.; and the latter, with Chrysler Corporation, U.S.A., and Fiat Company of Italy for the assembly and ultimate manufacture of complete cars. These firms are now producing vital automobile components, namely, engine, gear box, differential, etc., on a small scale from imported castings and forgings. Subsequently, the Government approved the programmes of Standard Motors Products of India Ltd., Madras; Automobile Products of India Ltd., Bombay; and Ashok Motors Ltd., Madras, all of whom are associated with some or other British firms. Besides these firms, there are five important assembly firms at present. It is worthy of note that in order to help the automobile industry the Government took the unusual step of granting protection long in anticipation of actual production. On the recommendation of the Tariff Commission the Government decided in 1952 to continue assistance to the recognised firms to carry on the progressive manufacture of cars and trucks.

Chittaranjan. Tatanagar.

As regards railway requisites, at present there are two locomotive manufacturing works, one at Chittaranjan in West Bengal and another at Tatanagar in Bihar. Wagon industry has been in existence for about 33 years, producing rolling stock which is comparable in quality with foreign manufactures. Almost the entire requirements of railway coaches have been met by the Railway workshops. Coach building is also done by the Hindustan Aircraft Ltd., Indian Standard Wagon Co. Ltd. and M/s. Braithwaite & Co. Ltd. The workshop at Jamalpur is doing good work in this respect.

Hindustan Aircraft.

The Hindustan Aircraft Limited, Bangalore was started in 1940 by Sri Walchand Hirachand in association with the Government of Mysore. In 1943 the two Governments of India and Mysore became its shareholders. On the termination of World War II the factory was re-organised under the Department of Industries and Civil Supplies for the conversion and overhaul of army Dakotas for the use of civil aviation. There has been considerable progress of the manuufacture of Jettison tanks. The first aircraft produced by this factory flew in 1951 and some improvements have been made in the production of aircrafts in later years.

The ship-building industry is making progress under Government assistance. A few ships have already been produced and certain others are under construction in the Vishakhapatnam shipyard.[1]

Hindustan Shipyard Limited.

Since the Government acquired the controlling interests in the Hindustan Shipyard Limited in 1952, the Shipyard has undertaken the construction of modern Maierform design ships propelled by diesel engines, as distinct from the old "Jala-type" ships which were being built by the Scindia Company. These ships are materially different from the earlier ones having more modern equipment, power and speed and involve inter alia 50 per cent more work. During the year 1955-56 two Maieform ships were constructed ; a third similar ship is almost ready for delivery in early May, 1956. Work in regard to a passenger-*cum*-cargo ship for operation on India-Andaman route, and two large diesel engine cargo ships each for overseas trade and one "Mooring Vessel" for the Navy, is in progress. Apart from this, work for planning and construction of a survey ship for the Indian Navy, two ships, one 5,000 tonner and 6,000 tonner have also been undertaken. A development programme has been sanctioned by the Union Government, which is likely to be carried out by the end of 1956. The question of construction of a second shipyard is under active consideration which is likely to be started as soon as the difficulties are overcome.

Bicycle industry.

The necessity of having a cycle industry in India has been keenly felt for a long time past. The idea took a practical shape in 1938 when the India Cycle Manufacturing Company Ltd. of Calcutta placed orders in Germany for machines. But the war interrupted their operation. In 1939 two other companies were registered with the object of manufacturing cycles. All these companies helped the Government in their defence efforts. The production of the Indian manufacturers was at a low ebb during World War II. The industry was given Tariff protection in 1946, which acted as a boon enabling the industry to expand output and encouraging new units to enter the field. Several firms started production in 1952, and in 1955 India produced 491,171 cycles. With the improvement in quality the

[1] For fuller discussion see Part II.

imports of cycles are gradually diminishing and there is every reason to hope that India not only will be self-sufficient in regard to bicycles but be able to export cycles very soon.

Non-ferrous metal industries.

Aluminium.

Of the non-ferrous metal industries, aluminium is the most important. The two producers of aluminium are Aluminium Corporation of India Ltd. and Indian Aluminium Co. They started production of virgin aluminium in 1943-44.

The main impediment in the way of increasing production has been the lack of supply of enough of electric power to the industry. The total production was 7,225·2 tons in 1955.

The remarkable properties which have helped aluminium to come to the forefront are lightness, high tensile strength, high electrical conductivity and resistance to corrosion. Its most important and largest use to-day is in the building up of aircraft. It is also being increasingly used in the manufacture of domestic utensils, railway carriages, motor cars, furniture and storage receptacles. Aluminium cables are replacing copper conductors in electric transmission lines in many cases. Aluminium is also used as powder or paste in the paint industry. Aluminium foil is rapidly replacing lead foil as a wrapping and packing material. Aluminium sheets are used for thermal insulation of houses, locomotive boilers, air-conditioned trains etc. Aluminium foils are used for tea chest linings and India is self-sufficient in this regard.

The Government have sanctioned a scheme of Messrs. Indian Aluminium Co. Ltd. to instal another smelter with a capacity of manufacturing 10,000 tons of virgin aluminium per year.

Vast scope.

There is a vast scope for expanding the industry because aluminium is the only non-ferrous metal which India can produce in large quantities. She has known reserves of 250 million tons of bauxite of which some 35 million tons are of high grade. Most of the other raw materials required for manufacturing aluminium are also obtainable in India. Thus India can reasonably hope to be self-sufficient in the near future in regard to aluminium and aluminium products.

Copper.

The copper industry was started in 1928 by Messrs. Indian Copper Corporation Ltd. at Ghatsila in Bihar, and this firm is the only producer of virgin copper from ore. Practically the whole of copper produced by the Corporation is converted into brass. The total production was 7,281·00 tons in 1955. Country's

requirements of electrolytic copper are entirely met by imports. It has been decided by the Government to put up a silver refinery in Calcutta which will be able to produce 3,600 tons per year of electrolytic copper from the copper scrap.

Importance. Copper is a very important metal and is used in large quantities in various electrical and engineering industries. Copper is also alloyed with zinc and tin to produce yellow metals such as bronze and brass which are widely used for making cooking utensils, other household articles and works of art. But the industry could not be expanded due to non-availability of good copper ores in the country.

Lead. There was practically no production of lead in the country before 1943-44 when a factory was started for the first time by the Metal Corporation of India Ltd., Calcutta. Till then Burma was the chief supplier of lead to India. In 1955 the total production amounted to 2,234·4 tons.

Zinc. There is no separate production of zinc in India. The ore produced in Zawar mines in Rajasthan is lead-zinc ore. The Metal Corporation of India Ltd. is allowed to export zinc as there is no zinc refinery in the country. India's requirements of zinc are 30,000 tons which are entirely met by imports. Zinc is used mainly in alloys and particularly in the production of brass. Zinc is also used for galvanising steel sheets and wires and in the manufacture of pigments.

Antimony. Antimony was not produced in India before World War II. The Star Metal Refinery was put up in 1941 for producing antimony. But the industry is now dependent on imported ore on account of the loss of the Chitral mines due to Partition. The actual production was low at 504·0 tons in 1955 due to irregularity of ore imports.

Electrical Engineering industries. There were only a few units producing electrical goods in the country before World War II. Supplies from overseas were largely cut off during the war and India had to supply not only her own domestic needs but also of many other countries engaged in war. This gave a powerful stimulas to the development of electrical industries in India. These industries faced a somewhat critical period in the early post-war years, but since then substantial progress has been made by most of the units producing cables and wires, dry and storage batteries, electric

fans, lamps and transformers, etc. It is expected that India will be self-sufficient in regard to most of the electrical goods.

The establishment of the Telephone Cable Factory at Rupnarainpur (West Bengal), for the manufacture of dry core paper insulated telephone cables and Indian Telephone Industries are already manufacturing telephone equipment and cables. Messrs. Bharat Electronics Ltd. will undertake the manufacture of tele-communication and electronic equipment.

Production of electric motors has increased nearly sevenfold since 1947. The progress in respect of transformers, cables and wires has been impressive. India has attained self-sufficiency in the manufacture of electric fans, as also in respect of most types of lamps. The radio receiver industry and the house service meters industry have also been able to report a substantial rise in output.

Chemical industries.

The once flourishing chemical industries of India ran the risk of being almost stamped out by the foreign manufacturer. The foreign chemical product obtained a supremacy in India, not merely because it was cheaper, but mainly because it could be depended on for uniformity of quality. Simple drugs and extracts were manufactured by some factories on a small scale. The industrial development of India has been greatly handicapped by the lack of chemical industries in the country. India imported chemicals of the value of more than a crore of rupees a year on the eve of World War II.

Heavy chemicals.

It is recognised that heavy chemicals are a key-industry, and their development is urgently called for. The Chemical Services Committee expressed the opinion that there was an enormous field for the production of carbon compounds in India. A coal tar industry is a great necessity in this country, for it is from coal tar that all countries obtain their high explosives, their synthetic drugs and their synthetic dyes. Several factories—the most notable among them being the Bengal Chemical and Pharmaceutical Works of Calcutta and the Tata Chemicals of Bombay—have for a considerable time past been doing very good work in the way of reviving the chemical industries in India.

Recent progress.

Some progress has been made in recent years in the manufacture of the acids ordinarily required for different purposes, particularly, sulphuric acid. India has the advantage of raw materials and of the fact that foreign supplies have to bear a

heavy transport charge. But, in spite of these advantages, the progress has not been rapid, first, on account of the lack of power, plant, and technicians and, secondly, on account of the strong competitive position of German and British syndicates. Protection was given to the industry in 1931. The production of sulphuric acid increased by 4 per cent over that of 1954. **Protection.**

Fertilisers. The application of adequate quantities of fertiliser to the soil is essential for stepping up agricultural production and preventing soil erosion. Too much use of artificial fertilisers, however, tends to make the land barren ultimately. Although Indian soils which are deficient in humus require the application of organic fertilisers, it is also necessary to supply sufficient quantities of the principal inorganic fertilisers, namely, nitrogen, phosphorus and potash.

Sindri Fertilisers and Chemicals. Synthetic ammonia production and conversion was started in Mysore in 1938. In 1947 another plant was put up near Alwaye in Cochin. The Sindri Fertilisers and Chemicals Ltd. in Bihar which started production in October 1951, is the largest of its kind in Asia. Total production of ammonium sulphate in 1955 amounted to nearly four lakh tons. When the new projects of these factories will come into effect, India will not only be self-sufficient in this respect, but also there will be some exportable surplus.

Further development. A catalyst plant at Sindri has been installed at a cost of Rs. 3·5 lakhs in order to avoid imports of iron-oxide catalyst. The construction of a coke oven plant is nearing completion. A project is also in hand for the expansion of the present Sindri factory so as to produce other nitrogenous fertilisers like urea and ammonium nitrate making use of the waste gases from the coke ovens. Unfortunately, the price originally charged for the product was very high resulting in the accumulation of large stocks. The policy of selling the product on a credit basis is now tending to larger amounts being purchased for supplying artificial manures to the fields.

India produces about 50,000 tons of phosphatic fertilisers per year as against the total requirements of 1·5 m. tons. A superphosphate factory is nearing completion at Sindri. Bones and bone products are, however, used for meeting the requirements. The quantity of phosphorus applied to the soils is very meagre

and therefore demands immediate attention in order to maintain soil fertility.

Potassium nitrate, in addition to its use as a fertiliser, is also used for the manufacture of gun-powder and other important products. Present production is very low, but there are good prospects of processing this article not only from natural resources but also from salt and molasses.

To stabilise the fertiliser industry encouragment should be given to the use of nitrogenous and phosphatic fertiliser. It has also been decided to start nitrogenous and phosphatic factories at suitable places.

World War II.

During the Second World War, India made a good start in the manufacture of basic chemicals, particularly heavy chemicals. Sulphuric acid is produced in India from foreign sulphur. India also produces magnesium sulphate, iron sulphate, sodium sulphate, sodium sulphide, zinc chloride and various other kinds of heavy chemicals. She produces annually 108,000 tons of sulphuric acid. The production of soda-ash which is the basic raw material of glass industry was 77,268 tons in 1955. The production of caustic soda which is largely used by soap, oil, textile, paper and other industries was about 34,152 tons in 1955. The production of bleaching powder is handicapped by a lack of adequate quantity of lime of good quality at industrial centres. In 1955 the total production of bleaching powder was about 2,700 tons.

Acids and alkalis.

Penicillin. D.D.T.

A penicillin factory, which was established at Pimpri (Bombay) with the assistance of the World Health Organisation and the United Nations Children's Fund, started production on a commercial scale in 1955. The Government is setting up in Delhi a factory for the production of 700 tons of D.D.T. per year under the anti-malarial programme. A joint plan of operations has been drawn up under which Government will contribute a considerable sum and the UNICEF and UNTAA will also assist. It also started production in 1955.

Perfumes, etc.

Perfumes and essential oils are important industries in Uttar Pradesh. Ghazipur, Jaunpur, and Kanauj are famous for the production of *itr* and other perfumes, rose-water, and various kinds of perfumed oils. These have so far been small scale industries but a few perfumery factories on western models

have recently been established in Calcutta, Bombay and some other cities.

Soap. Soap is manufactured by the indigenous process, and also in factories on modern lines. The first soap factory was established in Meerut by an Englishman in 1887. World War I provided an impetus to the industry, but the output was not large.

World War II. World War II created a situation where the industry could grow rapidly. The technique of production was considerably improved. In 1955 the output was about 98,000 tons. Most of the raw materials are now available in India. The main by-product of the industry is glycerine. The present recovery of glycerine is about 2,500 tons. The maximum utilisation of the by-product will correspondingly reduce the cost of the main product and thereby will put the industry on a strong foundation. Already the industry is exporting soaps to the Far and Middle East. With sufficient help from the Government and an improvement in the supply of raw materials, the industry promises to become one of the biggest and most widespread industries in the country.

Plastic Industry. The term 'plastic' refers to a large group of synthetic resinuous materials which are capable of being shaped into any desired form. Plastics are lighter than metal and do not corrode, rot or rust. Most of them are less inflammable than wood. Each plastic has its own desirable characteristics. Some of them have glass-clear transparency, some others are highly resistant to water and chemicals, while there are other varieties which can be flexible like rubber, soft like silk or strong like steel. Importance is attached to the development of this industry owing to the increasing application of plastics in every day life as well as in different industries.

The plastic industry is of comparatively recent growth. The Government gave recognition to this industry just after World War II. During the last eight years, considerable progress has been made in plastic moulding. Some of the important articles so far made are: industrial accessories like automobile parts, jute bobbins, jockey pulleys and radio cabinets; electrical lighting and fitting accessories; containers; stationery articles; fountain pens; artificial eyes; travel bags; rain wear; waist belts; watch straps; insulated wires; industrial sleevings and tubings, etc. The total production has increased steadily from 3·7 lakh

grosses in 1948 to 12·7 lakh grosses in 1953, but the bulk of the raw materials is still imported. The estimated production was 2·4 million grosses in 1955.

Dyeing.

Dyeing was at one time a very thriving industry, but Indian dyes, though better and more lasting, have to a large extent been replaced by cheap aniline dyes. Dyes are even now manufactured from various stuffs, such as indigo, catechu, *al*, safflower, lac, and turmeric, but nowhere on a considerable scale. The indigo industry has greatly declined since the production of synthetic indigo by Germany. The paint industry has made a good start in the country.

Paper.

The manufacture of paper was at one time an extensive hand industry, but the paper produced in India is now almost wholly machine-made. The production of machine-made paper in India dates from the establishment in 1870 of the Bally Mills on the Bhagirathi in West Bengal. The development of the paper industry was slow until World War I.

Early days.

Protection.

The Indian paper industry had to face many difficulties in the inter-war years. The cost of chemicals and the transport charges for coal were high, and foreign competition was acute. In 1924 protective duties were imposed on certain varieties of foreign paper for a period of seven years which were renewed in 1932 for another period of seven years. In 1939, the protection granted to the paper and paper-pulp industry was renewed, but the rates were, in some cases, slightly reduced. The period of protection was fixed at three years. The protective duty was abolished after the termination of World War II, as the price of indigenous paper compared favourably with the world prices.

Raw material.

The staple material for the manufacture of paper in India had formerly been *sabai* grass, which grows abundantly in Northern India. The Forest Research Institute at Dehra Dun made extensive investigations into the possibility of utilising Indian grasses other than *sabai*. The prospects of making paper from bamboo were successfully explored. Pulp required for newsprint can be made from certain types of timber found in an adequate quantity in Madhya Pradesh. The National Newsprint and Paper Mills Co. has been formed with a large capacity of production. For the purpose of developing internal raw-materials it is absolutely necessary that the forest wealth

of the country should be properly surveyed. The Forest Research Institute is doing useful work in this direction.

Present position. There are 20 paper mills in the country with an annual capacity of 2·12 lakh tons. The industry is meeting the indigenous demands to the extent of 80 per cent of printing and writing papers, 50 per cent of specialities and 30 per cent of packing and wrapping and nearly 95 per cent of paper and pulp boards. The industry at present operates mostly with old and reconditioned plants. Modernisation and expansion will require a large amount of money, of which Rs. 66 crores has been allotted in the Second Five-Year Plan.

Glass.

Older methods. The manufacture of glass by the indigenous method has been in existence from very early times. Bangles are made of crude glass blown from *reh* or saline deposits on barren land. Flasks, ink-pots, and such other small things are blown from crude glass.

Modern methods. The glass industry on modern lines require high-grade technical knowledge. In recent years factories have been started almost all over India and these turn out mainly plain articles for domestic use.

Rapid progress. An indirect help was rendered by the grant of a rebate of the import duty on soda ash. By 1939 India produced as much as 60% of her glass requirements.

Production was maintained more or less at a satisfactory level during World War II but certain difficulties also were faced by this industry. The Government levied a protective duty on the manufacture of sheet glass in 1949. During 1955 India produced 38,984·4 thousand sq. ft. of sheet glass, 254·4 lakh pieces of glass shells, 2,106 tons of laboratory glass and 88,812 tons of other glass wares.

In addition to catering for the internal demand, India now exports glassware to Pakistan, Ceylon, Australia, the Middle East and the Far East.

There was a general increase in the production of glass. The increase was substantial in respect of laboratory glassware, thermos flasks and penicilin vials. Sheet glass of 44 to 48 ounces was produced in India for the first time in 1955. The production capacity of the glass industry was reassessed in 1955 and some of the surplus capacity available was utilised by diversified production. Efforts are being made to develop

the production of plate glass, optical glass, roofing tiles, coloured sheet glass, quality cut glass and glass insulators.

Cement. Cement is one of those industries which were encouraged by the changed conditions of the inter-war period. Before World War I, the amount of cement produced in India was small, and the needs of the country were mainly satisfied by imports. The industry received a great encouragement since World War I on account of the wide use of cement and concrete for all sorts of structural works. The demand for cement increased largely and, consequently, capital came forward in large quantites to be invested in the large-scale manufacture of cement. The production of cement in India increased by 1936-37. The manufacture was carried on mainly in Kathiawar, Rajasthan, Madhya Pradesh (at Katni) and in Bihar on the banks of the river Sone.

World War I.

Impetus during World War II. The cement industry received further impetus during World War II. The production of cement showed a steady rise till 1945. The industry has a great future as the country provides a huge local market. It is satisfactory to note that neither protection nor bounties were granted to this industry. Certain new factories have been started and the output rose to 4,496,062 tons in 1955. Another big factory is about to be set up in Bihar while licences are being granted to two more factories, one in Rajasthan and the other at Chittaranjan (West Bengal).

Matches. Another industry that has developed in the inter-war years is the match industry. All the early attempts made had ended in failure until 1922, when a revenue import duty of more than 100 per cent. was imposed on foreign matches. This served the purpose of protection. Encouraged by this stimulus and by the existence of a very large and steady home market, factories came into existence to supply the entire needs of the people. The revenue duty was converted into a protective duty in 1928. This prohibitive duty enabled the firms in India to meet almost the whole demand. With the outbreak of the second World War the prices of raw materials for the match industry began to rise steadily as shipping position became more and more difficult. The prices of matches rose in proportion and the Government of India found it necessary to control the price of matches in March, 1942. Price control was withdrawn

in 1946 with the improvement in the supply of matches. At present the match industry supplies not only the entire internal requirement of matches but also caters to the needs of some neighbouring countries. In 1955 the total production was 614·8 thousand cases.

The match factories were mainly financed, owned, and managed by a large Swedish Combine. There was a strong opposition to the policy of protecting the match industry, on the ground that the Indian consumers were made to bear a heavy burden for the benefit of Swedish capitalists. This objection has been partly met by the formation of "The Western India Match Co. Ltd.", whose Board of Directors is mainly composed of prominent Indian businessmen. Nearly half of its capital is subscribed by Indian investors.

Swedish Combine.

India produces enormous quantities of hides and skins, but exports a large portion of them in a raw or half-manufactured state to foreign countries. The progress of the leather industry has not been on a scale which one would have wished. For many years the indigenous leather industry was in an extremely primitive condition, and only inferior kinds of leather were produced. The establishment of the Government Harness and Saddlery Factory at Kanpur in 1860 marked the beginning of the adoption of European methods of tanning. Private enterprise led to the starting of factories for making finished leather goods at Kanpur, Bombay and Madras, but these were mainly dependent upon contracts from the military department.

Leather.

The leather industry received a stimulus from the introduction of chrome tanning. A Government factory was started in Madras in 1903 to manufacture leather by chrome tanning as an experimental measure. The success of this experimental factory led to the adoption of chrome tanning in tanneries which used bark only.

During World War I, 60 per cent. of the total number of army boots manufactured in England was made of Indian leather. Three research institutes were started at Madras, Kanpur and Calcutta.

Effect of World War I.

With a view to making the raw material available at low price, the Government in 1919 imposed an export duty of 15 per cent. on hides and skins, with the proviso that a drawback of 10 per cent. should be given in the case of exports to any

Export duty on hides.

part of the British Empire. This duty was opposed by Indian public opinion. The Fiscal Commission and the Indian Taxation Enquiry Committee recommended its early abolition. The export duty on raw hides was abolished in 1934. The export duty on raw skins was abolished a year later.

Progress during World War II.

The industry made rapid progress during World War II and the progress continues up till now. In 1955 except in the case of Western type footwear, there was an allround increase in production in this industry. One of the factors contributing to the fall in production of western type footwear was the levy of Central Excise Duty of 10 per cent. *ad valorem* on the products of large factories. Due to lack of sufficient capacity to finish goatskins into exportable leather, considerable quantities of these skins are exported from India. Attempts are, however, being made to increase the capacity for chrome tanning in the country and to export finished goatskins instead of raw skins. Steps are being taken to expand the plantation of wattle trees in the Nilgiris so as to make the country less dependent on outside sources of tanning materials.

Fuel oil industries.

The demand for petroleum products (motor and aviation spirit, diesel oil, kerosene, fuel oil, lubricating oil etc.) in India was very much larger than the quantity locally produced. As the value of petroleum products imported into India was Rs. 37 crores in 1948, it was considered desirable to put up crude oil refineries in India. There are three oil refineries in India, two at Trombay Island near Bombay and the third at Vishakhapatnam.

Oil refineries.

The Standard Vacuum refinery at Trombay, which went into production late in 1954, has a capacity of about 1·2 million tons and involves a total capital investment of Rs. 17 crore. The Burmah-Shell refinery at Trombay reached full production by the middle of 1955. It has an installed capacity of about 2 million tons per annum and involves a capital outlay (including working capital) of about Rs. 33 crore. The third refinery is being established at Vishakhapatnam. A new Indian company called Caltex Oil Refinery (India) Ltd. has been set up to construct and operate the refinery. The refinery will have a capacity of 0·675 million tons of crude oil per annum and will involve a capital outlay of about Rs. 12·5 crore. Explorations in West Bengal are being carried out by

the Standard Vacuum Oil Company in partnership with the Government of India. Exploration in Assam and other states has given the hope of fresh finds of oil, and steps will be taken to establish factories in these areas.

Synthetic oil. Synthetic oil industry is a key and defence industry in a country like India which, as we have already seen, is very poor in natural oil resources.[1] The question of manufacturing synthetic oil from low-grade coal available in the country has been under consideration for some time. Recent investigations conducted on lignite in South Arcot have suggested that those deposits also have potentiality for the manufacture of oil.

Power Alcohol. The importance of the power alcohol industry lies in its supplying a product which can replace an equivalent quantity of imported petrol and which can be manufactured from the large quantities of molasses available within the country. At the beginning of 1951 there were 19 power alcohol distilleries established in the different parts of the country. Actual production increased progressively in the post-war years and stood at 7·977 m. gallons in 1953. The main problems of the industry relate to (*i*) availability of molasses; (*ii*) organisation of the disposal of power alcohol; (*iii*) high cost of production; (*iv*) handling loss involved in the delivery of power alcohol to State Governments; and (*v*) high charges paid to oil companies for blending and marketing. The Government is considering the solution of these problems.

Some less-known industries. Some industries like belting, refractories, coated abrasives, asbestos cement sheets, etc. are important. Asbestos fibre is wholly imported. The capacity of the existing factories together with that of the newly established factory at Coimbatore will be of the order of 140,000 tons which is sufficient to meet the country's present demand.

Woodwork and carpentry are still, in the main, hand industries. Saw mills have, however, been established in all parts of the country. The plywood industry has made considerable progress in recent years.

The following statistics of industrial production in 1955 will

[1] Dr. J. C. Ghosh's Paper on *"Petroleum Industry with Special Reference to India"*, read before The Indian Association for the Cultivation of Science in February, 1954.

provide the reader with a rough idea of the industrial development of India:[1]

Statistics of Industrial Production.

1. Textile Industries.	
(*a*) Cotton Yarn	163·64 crore lbs.
(*b*) Cotton Cloth	509·28 crore yards.
(*c*) Jute Manufactures ...	10·272 lakh tons.
(*d*) Woollen Manufactures ...	2·07 crore lbs.
2. Iron and Steel.	
(*a*) Pig Iron	17·57 lakh tons.
(*b*) Finished Steel	12·6 lakh tons.
3. Machinery.	
(*a*) Diesel Engines	10,044 (nos.).
(*b*) Power-driven Pumps ...	34,800 (nos.).
(*c*) Sewing Machines ...	101,472 (nos.)
(*d*) Machine Tools ...	74·4 value in lakh rupees.
(*e*) Calico Looms	2,736 (nos.).
4. Metal Industries.	
(*a*) Hurricane Lanterns ...	53·13 lakh (nos.).
(*b*) Enamel-ware	151 lakh pieces.
5. Non-Ferrous Metals.	
(*a*) Aluminium	7,225 tons.
(*b*) Copper	7,281 tons.
(*c*) Lead	2,234 tons.
(*d*) Antimony	504 tons.
(*e*) Gold	2·11 lakh ozs.
6. Electric Industries.	
(*a*) Storage Batteries ...	235,200 (nos.).
(*b*) Electric Fans	282,000 (nos.).
(*c*) Electric Lamps ...	242·34 lakh (nos.).
(*d*) Radio Receivers ...	80,832 (nos.).
7. Chemicals.	
(*a*) Sulphuric Acid ...	1,65,072 tons.
(*b*) Caustic Soda	34,152 tons.
(*c*) Bleaching Powder ...	2,700 tons.
(*d*) Ammonium Sulphate ...	3,93,096 tons.

[1] *The Journal of Industry & Trade*, August, 1956.

8. Chemical Industries.		
(*a*) Soap	... ...	98,148 tons.
(*b*) Glycerine	... ...	2,352 tons.
(*c*) Power Alcohol	...	1,04,32,800 gals.
(*d*) Matches	... ...	6,14,800 cases.
(*e*) Paper	... ...	184,884 tons.
(*h*) Sheet Glass	... ...	3,89,84,400 sq. ft.
(*g*) Cement	... ...	44,16,000 tons.
9. Transport.		
(*a*) Automobiles	... ...	23,088 (nos.).
(*b*) Bicycles	... ...	491,172 (nos.).
10. Mining.		
(*a*) Coal	... ...	3,82,08,000 tons.
11. Food and Tobacco.		
(*a*) Sugar	... ...	15,94,800 tons.
(*b*) Coffee	... ...	24,948 tons.
(*c*) Tea ...	... ...	662·4 million lbs.
(*d*) Salt ...	... ...	8,10,72,000 mds.
(*e*) Vegetable oil products	...	2,60,760 tons.
(*f*) Cigarettes	... ...	209,016 lakh (nos.).
12. Other Industries.		
(*a*) Plywood	... ...	11,04,12,000 sq. ft.
(*b*) Footwear	... ...	55,45,400 pairs.
(*c*) Chrome tanned hides	...	6,76,800 (nos.).

Distribution of industries in the States.

The most important steel industries are in West Bengal, Bihar and Mysore. Of the cotton mills, the largest number is to be found in Bombay State. The cotton mill industry has also been developed in many of the other States of India. Cotton-ginning factories largely preponderate in Bombay and Berar. The various branches of the cotton industry give employment to many lakhs of persons. West Bengal has a virtual monopoly of the jute industry with over 90 per cent. of the total number of mills in India. Silk mills and filatures are found chiefly in Bombay, Mysore, Kashmir, East Punjab and West Bengal, and the woollen mills in Uttar Pradesh, Bombay, Mysore and East Punjab. Flour mills mostly occur in East Punjab and Bombay, and sugar factories in Uttar Pradesh and Bihar. Rice mills are most numerous in Madras and West

Bengal. Iron and brass foundries now exist in most of the States of India.

Our brief and rapid survey of the most important industries shows that considerable advance has been made in the direction of an industrial regeneration. It is worthy of note that industrial production reached its peak in 1955.

Techno-logical education.

As technical education is of the utmost importance for securing efficiency in industry the subject should engage the serious attention of the Government as well as the people. Unfortunately the matter was neglected by the Government for a long time. Feeble efforts were made in some of the provinces and in a few Indian States in the early years of the present century. Engineering Colleges were established in different provinces, but their activities did not go far enough. In more recent times, the Indian Association for Cultivation of Science, Calcutta, the Jadavpur College of Engineering and the Indian Institute of Science at Bangalore—which owed its foundation to the munificence of the late Mr. J. N. Tata—have been rendering valuable assistance to industrial development. The researches conducted in the Department of Applied Sciences of the Calcutta University have been very useful for industrial purposes. The various railway workshops offer facilities for the training of apprentices.

Sugar Techno-logical Institute. Jute Techno-logical Institute.

The Sugar Technological Institute of Kanpur and the Institute of Jute Technology and the Jute Research Laboratory of Calcutta are also institutions of great importance.

Many large industrial firms also provide training facilities to apprentices. The Tatas, the Burns and the Jessops have their own schemes which afford opportunities to the enterprising youth of the country for training. The different State Governments have recently set up weaving institutes for imparting education in cotton technology. Arrangements have also been made for training in aeronautics and air-craft manufacture. The Delhi Polytechnic Institute is rendering valuable service in the matter of training apprentices.

Higher Technical Institutes.

The Government of India have recently established four higher technical institutes in four regions of the country, which will provide post-graduate study and research in engineering and technical subjects. Each institute will have accommodation for 1,000 students in the post-graduate classes and 2,000

students in the under-graduate courses. These institutions are estimated to involve a capital cost of Rs. 3 crores and a recurring expenditure of Rs. 44 lakhs a year each. The first of these institutions started work in 1951 at Kharagpur in West Bengal under the Principalship of a very distinguished scientist, Dr. J. C. Ghosh.

Industrial exhibitions.

Industrial exhibitions, held from time to time in different parts of the country, besides serving as an advertisement to consumers, produce an educative effect on the minds of producers. They tend to improve the production of goods by helping to expand the craftsmen's ideas. Thus both supply and demand sides derive advantages from such exhibitions.

Industrial Research Bureau.

Industrial research is a necessary adjunct to industrial progress. Without it, industrialisation stands on a weak foundation. Every industrialised country has an extensive system of industrial research, and India can no longer lag behind in this vital sphere of industrial activity. Following the recommendation of the Fifth Industries Conference, the Industrial Research Bureau was established in 1935. The Bureau is responsible for the collection and dissemination of industrial intelligence, collaboration with industries in industrial research, publication of appropriate bulletins, and the organisation of industrial exhibitions. The Board of Scientific and Industrial Research is associated with representatives of principal industries and conducts valuable researches in various industries.

Railway Research Council.

The Railway Research Council investigates the possibilities of improved railway operations, elimination of waste and effecting economies in the working of the railways.

National Laboaratories.

The Government of India planned eight years ago the establishment of eleven National Laboratories in various parts of the country. These are the National Physical Laboratory, Delhi ; the National Chemical Laboratory, Poona ; the National Metallurgical Laboratory, Jamshedpur ; the Fuel Research Institute, Dhanbad ; the Central Glass and Ceramic Research Institute, Calcutta ; the Central Food Technological Institute, Mysore ; the Central Drug Research Institute, Lecknow ; the Central Road Research Institute, New Delhi ; the Central Electro-Chemical Research Institute, Karaikudi ; the Central Leather Research Institute, Madras ; and the Central Building Research Institute, Roorkee. These research institutions are

carrying on research work in different sections of the industrial field. In addition to these, three more research institutes have been established during the last two or three years, namely, the Central Electronic Engineering Institute, Pilani ; the National Botanical Gardens, Lucknow ; and the Central Salt Research Institute, Bhavnagar.

Atomic Energy Commission. The Atomic Energy Commission was set up in August 1948 under the Atomic Energy Act of 1948. It deals with all matters connected with the development and production of atomic energy. The Commission spends several lakhs of rupees every year to promote cosmic ray research. The Board of Research on Atomic Energy and the Cosmic Ray Committee assist the Commission in carrying out its educational and research programmes. The research programme of the Commission is carried out at the Universities, the Tata Institute and other institutions. Among the institutions which receive assistance from the Commission for this purpose are the Institute of Nuclear Physics and the Bose Research Institute at Calcutta and the Physical Research Laboratory at Ahmedabad. In order to raise the standard of instruction in mathematics, chemistry and physics, substantial grants are given by the Commission to several educational institutions.

Indian Rare Earths Factory. The Commission has been responsible for the setting up of the Indian Rare Earths Factory at Alwaye in Travancore-Cochin. This enterprise is jointly run by the Governments of India and Travancore-Cochin. Set up in April, 1952, it undertakes the processing of monazite. Besides bringing substantial returns on the capital invested, it produces materials of strategic value. The Commission is now building another factory which will extract uranium from the waste eliminatted by the plant at Alwaye. Some of the rare earth salts produced by this plant will be used by the gas mantle industry, while the remainder will be kept for future use.

The Department of Atomic Energy was created by the Government of India in 1954 and is under the direct control of the Prime Minister, Dr. H. J. Bhabha, Chairman of the A.E.C., is its Secretary. The Department is located in Bombay and has taken over all matters connected with atomic research

from the Ministry of Natural Resources and Scientific Research.[1]

The Indian Standards Institute.

A lack of standards was a basic difficulty with Indian commodities in the foreign market. India's exports of many commodities will increase very rapidly if they are properly standardised. The Indian Standards Institute was established by the Ministry of Industry and Supply in June 1947 with the object of improving the standards of Indian products so as to bring them up to the quality levels in competition with foreign products and to standardise the quality of Indian goods for consumption at home and for export abroad. The Institute is already rendering valuable service to the country and is now affiliated to the International Organisation for Standardisation at Geneva.

Commercial education.

Another need of the hour is for a proper system of commercial education. Modern business is a very complex affair, and no one can hope to achieve success in it unless he has thoroughly mastered its principles. The would-be captain of industry should, besides acquiring a general knowledge of economic science, make a serious study of the special problems which arise in this country in regard to the production, distribution and exchange of commodities. And a well-conceived method of instruction is needed to give him a sound knowledge of subjects like commercial law, banking methods, import and export problems, foreign exchange, transport and freight, company management, labour problems, and the conditions of the markets in different countries. Commercial education is also necessary for those who intend to occupy positions of the middle rank in the business line. In recent years the matter has attracted the attention of the universities, and instruction in commercial subjects is now being imparted at Calcutta, Bombay, Lucknow, Allahabad and in some other Universities.

[1] India, 1956.

CHAPTER IX

DISTRIBUTION

1. RENT

Factors which determine rent: custom, competition, legislation.

RENT in India depends on the interaction of three forces—custom, competition, and legislation. In ancient days custom was the chief regulator of rents. With the increase of population and the gradual disappearance of the semi-socialistic ideas which used to govern the mutual relations of the members of the ancient village communities, rents began more and more to be regulated by competition. This led to great hardship in many cases, and the Government had to intervene in the interests of the tenant. The rent laws differ in the different States, but their general effect is to put a check on the power of the landowner to raise rents at his pleasure. The recent legislation itself starts from a basis of custom, and, while accepting the legitimate influence of competition, seeks to confine it within reasonable limits. It aims not so much at the curtailment of advantages naturally accruing to landlords as at the maintenance of rights already conferred on tenants by custom. Custom is, therefore, still, to a large extent, the foundation of Indian rents.[1] Rent does not necessarily represent the difference between the produce of any particular plot and the plot on the margin of cultivation. Productivity is, no doubt, a factor in the determination of the actual rent of any plot, but it is only one of several factors. Rent is generally an element in the cost of agricultural produce.

The relative influences of the factors.

The actual rates of rent in any part of the country depend on the relative strength of the three factors mentioned above. Where the influence of custom is very strong, it would overcome the influences of other factors. Where it is weak, com-

Limited application of Ricardian theory.

[1] The Ricardian doctrine of rent is not absolutely true of any country in the world. The conditions which it assumes do not exist anywhere in the fullest degree; but in the United States and in England an approximation is made to these conditions, and to that extent the doctrine has application in those countries. In India, they exist to a very limited extent; and, consequently, the theory can hardly be said to hold good here.

petition has its way, unless it is checked by law. In sparsely populated tracts, such as in the remote parts of Assam, Madhya Pradesh and Rajasthan, rents are low. In some cases, tenants are invited to occupy land by allowing them to hold it free of rent for the first few years. In the densely populated parts—namely, the tracts of heavy rainfall, or those watered by the great rivers—competition for land is very keen, and the landowner is often able, when not prevented by law, to rack-rent the tenants. If custom and law be regarded as constant quantities, any change in the force of competition would necessarily change the rate of rent. In the early days of British rule, the population was much smaller than what it is now. Land was abundant, and tenants were few. Rents were, therefore, comparatively low. The population has since considerably increased. Moreover, owing to the decay of manufacturing industries, a larger proportion of the people is now engaged in agriculture than before. The competition for land has thus become keener in most places and, consequently, rents have gone up. In the larger cities, rents have risen very high.

Connection between rents and prices.

Rents, as a rule, rise when there is a rise in prices, but not proportionately. Generally, there is a time lag. In some cases, however, a rise in prices does not entail an increase of rents at all.

Cash rents and rents in kind.

Formerly, rents used to be paid in kind. At the time of the reaping of crops the representative of the landlord used to be present in the fields, and a division of the produce was made between him and the tenant. This system, although not free from difficulties, was very advantageous to the tenant. If crops failed, the tenant was not compelled to pay his rent in full,—perhaps not at all. The system still obtains, to some extent, in the remote villages; but cash rents have been generally substituted. These latter are less flexible than rents in kind. The legislative provisions deal mostly with money rents.

Systems of tenure:

The systems of tenure under which land is held are various. Roughly speaking, the tenants or holders of land may be divided into two classes. The first class possesses, according to immemorial custom, a right of permanent and hereditary occupancy in the land so long as they pay the rent that is due. The amount of rent depends mainly on custom. In some cases,

Permanent.

they are entitled to hold land at permanently fixed rates, and their right is heritable and transferable; in others, the rent can only be enhanced on certain definite grounds. The second class consists of those tenants whose term of lease is limited to a number of years, and of tenants-at-will who may be evicted at the close of any agricultural year. The amount of rent payable by tenants of this class depends on the bargain which the cultivator can make with his landlord.[1]

Temporary.

Condition of peasants of the two classes.

Tenants of the first class, together with those cultivators who own their lands, may be described as peasant-proprietors. Their condition is incomparably better than that of the cultivators of the second class. In all matters relating to material prosperity, such as the possession of cattle, dwelling-houses, and well-watered fields, the superiority lies on the side of the cultivator-proprietor or the occupancy-tenant. "The magic of property," of which Arthur Young spoke so eloquently, has its effect in India as elsewhere. The peasant-proprietor is the most uncontrolled arbiter of his own lot. The condition of the tenants of the second class is generally wretched. The economic and moral value of the system of peasant-proprietorship is immense, and one of the chief means of improving the conditions of the Indian cultivator is considered to be the conferment on him of at least limited rights of porprietorship.

"The magic of property."

Peasant Proprietorship.

Its merits, defects.

Peasant proprietorship has, however, its defects. It entails cultivation only on small plots of land which are not amenable to large-scale production. From this point of view, state-ownership is preferable to all the other systems of land tenure. But this may lead to dictatorship or some form of bureaucracy.

Rent of mining lands.

The rents of mining lands stand on an entirely different footing. In practically all the States (formerly known as Native States), the mineral rights used to belong to the respective rulers, and concessions were granted for mining and prospecting under rules that involved a certain amount of supervision by the Government of India. Now that feudal rule has been abolished all mineral rights have been transferred to the Central Govern-

[1] Cf. J. S. Mill: "The idea of property does not necessarily imply that there should be no rent. It merely implies that the rent should be a fixed charge. What is wanted is security of possession on fixed terms." *Principles of Political Economy.*

ment.[2] The Union Government has been vested with the authority to exercise control over regulation of mines and development of minerals in the country in conjunction with the State Government, the residuary authority only vesting with the latter, the regulation and development of oil-fields and mineral oil resources, are the exclusive responsibility of the Central Government.

Mining leases.

The Mineral Concession Rules 1949 regulate the grant by the State Governments and by private persons with whomsoever the mineral rights may vest, of prospecting licenses and mining leases for minerals other than petroleum and natural gas and 'minor minerals'. A certificate of Approval is an essential pre-requisite for the mineral concessions being granted to any person or company or firm. A Prospecting license can only be granted to a person holding a certificate of Approval. A Mining lease may be granted to a person, under the rules, holding a certificate of Approval. The period for which a mining lease can be granted cannot exceed 30 years in case of Coal, Iron ore and Bauxite for manufacture of Aluminium and 20 years in the case of any other minerals.

Prospecting leases.

Ownership of land.

The question of the ownership of land is one of the many disputed questions of Indian Economics. Without entering into the discussion of the technicalities of this question, we may say that, for economic purposes, each of three classes of persons may be regarded as having a limited right of proprietorship,—the tenant, the zemindar and the Government. The Taxation Enquiry Committee of 1924-25 were unanimously of opinion that "under both Hindu and Mahomedan rule, the state never claimed the absolute or exclusive ownership of the land and definitely recognised the existence of private property in it." The question has now lost its importance as recent legislation has abolished all intermediaries. Besides, the Government itself is the direct owner of large blocks of land, such as waste land, land which has been forfeited, or has lapsed

Taxation Enquiry Committee's views.

Government owner of large blocks.

[2] The Mines and Minerals (Regulation and Development) Act, 1948 extends to all States except Jammu and Kashmir and applies to all minerals including oil, and gives power to the Central Government to frame rules for regulation of the terms and conditions of the prospecting licences and mining leases (Sec. 5), the conservation and development of minerals (Sec. 6) and modification of the terms and conditions of old licenses and leases on payment of compensation (Sec. 7).

to, or has been purchased by, the Government, and all public land. With regard to these, the State stands on the same footing as a private landlord of the by-gone days, the only difference being that these lands have not to pay any additional land-revenue. Rents of such lands are governed by pretty much the same principles as those of private lands.

2. WAGES

Wages in ancient village communities, in modern times.

In the old village communities, wages as such did not exist, but all labourers were remunerated by portions of the produce. Custom still influences wages to some extent; the amount of its influence, however, varies according to the nature of the industry, its location and the enlightenment of the labouring population. Broadly speaking, it may be said that wages are comparatively inelastic. They are not quite as responsive to changes of circumstances as in Europe and America. Wages do, no doubt, fluctuate on either side of the fixed rates, but such fluctuations are always confined within narrow limits.

Influence of competition.

Competition is, however, becoming daily more and more important in the regulation of wages. In those parts of the country in which agriculture is the chief occupation of the people, there is very little demand for hired labour, and consequently a low and non-progressive scale of wages is found. This is specially the case where the population is very dense. But a great density of population does not always cause a low rate of wages. Where, side by side with high density, there is a great demand for labour, as for instance in a city, the scale of wages is high. So also, wherever a demand for labour is created by large undertakings, such as the establishment of mills or the construction of railways or main roads, wages rise. On the other hand, in the sparse parts of the country wages are low, because there is no demand for labour. In general, however, it may be said that, with the development of means of transportation, a broad labour market is gradually evolving itself. Labour is not so immobile now as it was in the past.

Mobility of labour.

Industrial labour is often recruited from distant parts of the country. The tea gardens of Assam and the jute industry of West Bengal depend upon other States for their labour supply.

Wage-earners in different employments are classified as skilled and unskilled labourers. Formerly, in the manufacturing industries, labourers usually earned wages mainly as unskilled workmen, skilled labour being largely supplied by foreigners because most of the manufacturing concerns were owned by non-Indians. But this system is fast coming to an end. Unskilled labourers obtain only a comparatively small proportion of the total produce. But the rigidity of the discrimination is gradually disappearing as skilled workers are recruited from the ranks of the country's labour force.

Skilled and unskilled labour.

The wages statistics are incomplete, and admittedly faulty. By far the most important class of labour is agricultural, but the record obtained entirely fails to give a reliable indication of the remuneration of labourers. Wages differ not only in different employments but also in the same employment according to differences of locality and circumstances. The regularitiy of employment also varies greatly, and employment is practically nowhere continuous throughout the year. An average wage, therefore, for India generally has little meaning. The wage of the child-labourer or woman-labourer is less than that of an able-bodied male-labourer.

Average wage.

Various kinds of wages are prevalent in India. In the factories, and in all employments in which large numbers of people are engaged, wages are paid according to time. In the handicrafts and the domestic industries, the usual system is of task- or piece-wages. In some cases, wages are regulated by special contract; in some others, a certain minimum is agreed upon, and, if the work is done better, a higher rate is given. Lastly, when all the members of a family are engaged for any work, they are paid collectively.[1]

Kinds of wages.

The system of payment was formerly in kind; but now money payment has become the rule. From the economic point of view wages are of two categories, nominal and real. A nominal wage is the amount expressed in terms of money, while a real wage is the amount that is related to the cost of living. In the remote villages the agricultural labourers, and sometimes the artisans and domestic servants also, are

System of payment.

[1] These different kinds are technically distinguished as time-wages, piece-wages, task-wages, contract wages, progressive wages and collective wages respectively.

still remunerated, wholly or partly, by a percentage of the crops yield. There is a tendency, however, everywhere for money wages to be substituted for wages in kind.

Rise in wages, real and nominal.

After the last quarter of the nineteenth century, in response to rise in prices, money wages substantially advanced. Wages, however, did not always keep pace with the rise in prices. During a period of forty years preceding the First World War the wages census showed that in Bengal and the Punjab the wages of agricultural labourers rose by 29 per cent. and 49 per cent., and those of artisans by 48 per cent. and 50 per cent. respectively. But the rise in the prices of food-grains was much higher proportionately.

World War I and after.

After the First World War there was a marked advance in the wages of all kinds of labourers in India. This rise in wages was the result of high prices which caused great hardships to all classes of labour, and the effects of which on industrial labour were so acute that in many places frequent strikes and lock-outs disorganised industries.[1] The employers in many cases were obliged to concede the demands of labour, with the result that the wages were nearly doubled. Subsequently, there was a rise in real wages.

World War II.

With the outbreak of the Second World War money wages registered sharp increases. They increased from an average annual earnings of Rs. 287·5 per head in 1939-40 to Rs. 728·4 per head in 1947-48. But this rise in the money earnings of labour could not keep pace with the movement of prices which rose to unprecedented heights. The result was that the average real earnings fell considerably. After 1943-44 real earnings recovered somewhat, but they were still below the 1939-40 figure. However, though the real earnings per head have diminished, the total real wages bill never fell below the 1939 figure. The broad fact is that after 1939 labour as a whole improved its position in the organised industries in respect of its real as well as its nominal earnings. This improvement was secured

[1] The Royal Commission on Labour in India (1931) in an analysis of wages in engineering and metal industries observed: "Taking five typical occupations—masons, carpenters, blacksmiths, fitters and turners—the earnings are highest in Bombay City and Ahmedabad . . . [wages] are lowest in Madras, Bengal, Bihar and Orissa, and the United Provinces. Midway between the two extremes come the Central Provinces, Burma, the Punjab, and Delhi in the order named."

by greater employment as well as by labour acquiring a greater share of the net value added by manufacture. But employment commenced to decline after 1945-46 and the share of labour, after reaching a maximum in 1946-47, again tended to decline.

The average annual earnings of workers in perennial industries in all States increased from Rs. 966·8 in 1950 to Rs. 1035·4 in 1951. During the same period average annual earnings in the four seasonal groups rose from Rs. 408·8 to Rs. 417·8. The all-industries average increased from Rs. 849·9 in 1950 to Rs. 898·1 in 1951.

Generally speaking, the increases in earnings were due to bonuses granted by Adjudicators, Tribunals, etc., and partly to the fact that the loss of man-days due to industrial disputes was less in 1951 than in 1950.

The total wages paid to factory workers amounted to Rs. 222 crores in 1954 as compared with 221 crores in 1953. The total wage bill for all States in 1954 increased by 0·7 per cent. Comparing the figures of average earning for 1954 with those for 1953, it is seen that All-States figure remained at practically the same level being Rs. 1,110·9 in 1953 and Rs. 1,111·3 in 1954. During the four years 1951-54 average earnings in coal mines increased by about 9 per cent., although there was not any major revision in the wage structure in the industry during the period. The general index (with 1939 as base) which stood at 392 in 1950 increased gradually to 442 by 1954. In particular, the index for wages in coal mining increased from 387 to 441 and that for non-coal from 406 to 448 during the same period. There was, however, a slight temporary drop in the non-coal index in 1953.[1] During the quarter ending 31st December, 1955, there were revisions of basic wages, dearness allowances and bonuses in several industrial concerns. The most important wage revision during the quarter under review was in the Cotton Textile Mills in Quilon (Travancore-Cochin). The Industrial Tribunal, in Trivandrum, awarded that all the workers employed in the concern, getting a basic pay between Rs. 16 and Rs. 18 per month shall be paid a minimum basic pay of Rs. 30 per mensem. Increases of Rs. 15 and Rs. 10 were also awarded to the worker getting Rs. 19 and Rs. 35 per

[1] *Indian Labour Gazette, February, 1956.*

month and Rs. 45 and Rs. 90 per month, respectively. A flat rate of Rs. 30 per month as dearness allowance was also awarded to all workers by the Tribunal. There were also revisions of basic wages and dearness allowances in the Indian Tool Manufactures Ltd., Bombay, certain Printing Presses in Madras, two Silk Mills and the Imperial Chemical Industries Ltd., in Bombay. Annual profit bonuses were awarded to the workers in the Ahmedabad New Cotton Mills Ltd., the Shri Rajindra Mills Ltd., Salem ; the Indian Tool Manufactures Ltd., Bombay ; the William Jacks and Co., Ltd., Madras ; the Sirpur Paper Mills, Hyderabad ; and Daurala Sugar Mill, Uttar Pradesh.[1]

TABLE I

AVERAGE ANNUAL EARNINGS OF FACTORY WORKERS

Industry	1951 Rs.	1954 Rs.
*1. Processes allied to agriculture ...	154·9	
*2. Food except beverages	479·5	
*3. Beverages	969·0	
*4. Tobacco	392·2	
5. Textiles	1,044·0	1,089·6
6. Footwear, other wearing apparel and made up textile goods ...	989·3	1,107·0
7. Wood and cork except furniture ...	653·8	746·1
8. Furniture and fixtures ...	940·0	970·3
9. Paper and paper products ...	959·9	947·6
10. Printing, publishing and allied industries	1,052·9	1,214·1
11. Leather and Leather products (except footwear)	752·3	815·4
12. Rubber and Rubber products ...	1,325·1	1,335·8
13. Chemicals and Chemical products ...	868·9	1,021·0
14. Products of petroleum and coal ...	1,131·8	1,339·7
15. Non-metallic mineral products ...	699·2	740·5
16. Basic metal industries ...	1,368·2	1,612·6
17. Manufacture of metal products ...	917·3	1,024·9

[1] *Indian Labour Gazette, June, 1956.*
* Figures are not available.

	Industry		1951	1954
			Rs.	Rs.
18.	Manufacture of machinery	...	998.5	1,117.6
19.	Electrical machinery, apparatus, etc.		1,237.6	1,275.0
20.	Transport equipment ...	...	1,170.7	1,392.0
21.	Miscellaneous industries	...	1,067.3	1,162.3
22.	Electricity, gas and steam	...	1,229.2	1,328.7
23.	Water and sanitary services	...	907.9	1,045.6
24.	Recreation Services ...	...	968.6	945.7
25.	Personal Services ...	...	852.9	373.6
*26.	Seasonal industries (1-4)	...	417.8	
*27.	Perennial industries (5-25)	...	1,035.6	
28.	All Industries ...	...	898.3	1,110.9[1]

TABLE II[1]

AVERAGE ANNUAL EARNINGS OF FACTORY WORKERS DRAWING LESS THAN RS. 200 PER MONTH.

States		1951	1954
		Rs.	Rs.
Andhra ...	...	—	664.0
Assam ...	...	1,017.9	1,231.4
Bihar ...	...	1,241.5	1,450.0
Bombay ...	...	1,270.5	1,273.1
Madhya Pradesh	...	862.0	966.5
Madras ...	...	664.9	822.0
Orissa ...	...	762.4	894.9
Punjab ...	...	756.0	1,047.6
Uttar Pradesh	...	960.4	997.0
West Bengal	...	942.3	1,057.4
Part 'A' States	...	1,030.7	1,108.1
Ajmer ...	...	694.2	643.6
Coorg ...	...	—	559.4
Delhi ...	...	1,292.6	1,319.5
Part 'C' States	...	1,211.8	1,230.7
All States	...	1,035.6	1,111.3

* Figures are not available.
[1] Indian Labour Gazette, January, 1956.

TABLE III[1]

REGIONAL INDICES OF EARNANGS (GROSS) FOR THE YEAR 1953 TO 1954

Regions	States included	Years 1953	1954
North India ..	Uttar Pradesh ...	105.9	100.1
East India ...	1. Bihar	107.7	113.2
	2. Orissa	—	—
	3. West Bengal ...	—	—
	4. Assam	—	—
South India ...	1. Madras	130.4	128.4
	2. Andhra	—	—
West India ...	Bombay	104.9	99.9
Central India ...	Madhya Pradesh ...	99.8	106.7
North-West India	Punjab	105.5	108.7
All regions ...	... ...	107.7	107.6

Connection between prices and wages.

The question which suggests itself here is: Is there any connection between prices and wages? There is certainly some sort of connection, but it does not always manifest itself in the same result. The connection is, in fact, rather peculiar. The most direct and perceptible connection is found in a reduction in wages when food is inordinately dear. The reason is this. The failure of the crops destroys a large portion of the funds available for paying wages. At the same time, the number of people seeking employment is greatly enhanced, and labourers are found ready to work in return merely for the barest subsistence. Thus a decrease in the demand for labour and an increase in its supply cause the wages to fall. When, however, a rise in the price of produce is due to a larger demand, and extra profits are thus obtained, the expansion of business increases the demand for labour, and wages rise.

3. INTEREST

Capital mostly raised in Europe, and borrowed from banks.

The capital of most of the large-scale industries used formerly to be raised outside India, and the interest on such capital, together with the profits, had to be paid abroad. But in recent years, capital has been raised largely from indigenous sources.

[1] Indian Labour Gazette, January, 1956.

The subscribed capital of a firm is never sufficient for the carrying on of the business properly, and every firm has, therefore, to borrow money on occasions. This they obtain from the banks.

Rate of interest.

The rate of intetrest depends in practice upon the security which a firm can offer and the period of time for which money is borrowed. The rates also differ in different parts of the country. The rates of interest in the interior of the country are considerably higher than the Reserve Bank rate.[1] Even within the limits of the chief cities the rates are not uniform. This rate varies from day to day according to the demand for money; but it is generally high in winter, when the agricultural products are ready for sale and export, and low in summer. As a rule, the bank charges are the lowest in July and August. In September and October they begin to rise slowly, and the upward movement is continued till in February and March they reach the maximum. In April they show a downward tendency, and continue to fall till they again reach the minimum. The average rate of interest in India is usually a little higher than in Europe and the U.S.; but it is not so much the average effective rate for the whole year as the maximum rate in each year that is high. On their deposit side the banks keep the moneys, on which they pay interest, the rates being of course lower than those at which they lend. The Government and other public bodies also occasionally borrow money. The rate of interest on recent loans floated by the Central Government has been 3½ per cent. and that of some of the State Governments has been 4 per cent.

The money-lender.

Agricultural capital is supplied mostly by the village money-lender (*mahajan*). The agriculturist is almost always poor, and he usually cultivates his land with capital borrowed from the money-lender, on which he has to pay high—sometimes exorbitant—rates of interest. The practice of borrowing money is almost universal. It is frequently a part of the bargain that the produce should be delivered to the money-lender at a certain price, which is always below the market rate. Sometimes the cultivator becomes heavily indebted, and the debt often runs through the life of the borrower and is inherited by his heirs.

[1] A further discussion will be found in Part II.

The money-lender and the creditor. Usual arrangements.

A great number of the agricultural community appears to have a kind of running account with the *mahajan;* he advances them seed, giving one *seer* less than the market price. In other instances the advance is made at seed-time on the *sawai* principle, which means a return at harvest of one-fourth more than the quantity borrowed at seed-time. He lends money, moreover, for the inevitable marriage and for the equally inevitable lawsuit. When the tenant falls on evil days he would advance him rent to save him from ejectment. He is, in fact, at all times, the resource to which the needy agriculturist goes for relief; and the consequence is that a large proportion of the cultivating community is seldom free from the *mahajan's* influence. When the crops are reaped the greater portion finds its way to his granary; the tenant retains a share for his immediate use, which is seldom sufficient for the consumption of his household until the following seed-time. Long before the next harvest approaches he has, as a rule, to have recourse to the *mahajan*. The system is not without its advantages in hard times; it is to the interest of the creditor as well as the debtor that the latter should live; there is a community of interest which secures him from starvation.

Community of interest.

Sir F. Nicholson's view.

The money-lender does, no doubt, exploit the misery of the poor cultivator, but he renders him good service, in so far as he enables him to live. Sir Frederick Nicholson wrote many years ago: "On this subject there are two opinions, one of which regards him as on the whole rather beneficent and friendly, as a sort of partner with the ryot, supplying the needs of the latter, maintaining him in times of misfortune. Others, again, regard him as a beast of prey seeking everywhere whom he may devour. The truth, as usual, probably lies near the middle. As society and credit are at present constituted, he fills an absolute gap, and is a rural necessity. On the other hand, he is most undoubtedly an expensive and dangerous necessity. He has been found in India from time immemorial."

The money-lender a dangerous necessity.

Need of credit.

Credit is an inevitable condition of small farming. The farmer needs credit for the purchase of land; for permanent improvements, such as the digging of wells; for equipment, including implements and cattle; and as working capital

for buying manures, seeds, and fodder, and for paying the labourers.

its danger.

Facile credit is often very beneficial, but it has a drawback also. It is like a double-edged weapon, for there is the danger of its leading ignorant and thriftless cultivators to further indebtedness. Easy credit may sometimes mean reckless borrowing, and often for purposes other than those which help to increase production.

Measures for checking peasant's indebtedness.

Legislative measures.

Various measures have been adopted or proposed, from time to time, to check the indebtedness of the cultivator and thus to improve his condition. Enactments have been made with the object of restricting the transfer by sale or mortgage of agricultural land to non-agriculturists, the best known of these enactments being the Punjab Land Alienation Act. The Land Improvement Loans Act of 1883 and the Agriculturists Loan Act of 1884 were also passed to facilitate the supply of loans respectively for permanent improvements and short-term needs of agriculture, *e.g.*, purchase of seeds and cattle. But as the Royal Commission on Agriculture in India observed: "Legislative measures designed to deal with the problem of indebtedness have proved a comparative failure." The real solution of the problem would lie in a system which should provide the peasant with facilities for borrowing at a low rate of interest, and, at the same time, devise safeguards against imprudent and reckless borrowing. The credit associations started in Germany and other countries of Europe under the influence of Raiffeisen and Schulze-Delitzsch, on which the Indian Co-operative Credit Societies are modelled, fulfil both these conditions. The principles of action of these associations are self-help, co-operation, solidarity, prudence, thrift and public spirit. The Agriculture Commission also unhesitatingly recorded their belief that "the greatest hope for the salvation of the rural masses from their crushing burden of debt rests on the growth and spread of a healthy and well organised co-operative movement based upon the careful education and systematic training of the villagers themselves."

Co-operative Credit Societies.

Check for usury.

Many measures to check usury by legislation have also been undertaken. The subject engaged the attention of the Government of India many years ago, who invited the opinion of the Provincial Governments and public bodies on the three

suggested remedies, namely, (*a*) the fixing of a legal maximum rate of interest recoverable; (*b*) the determination of a legal maximum amount of interest recoverable, which cannot exceed the principal sum lent, commonly known as *damdupat;* and (*c*) the bestowal of authority on the courts to go behind a contract, reopen a transaction, and reduce the rate of interest to what might be thought equitable. The first remedy seemed to most people to be the most suitable, but the opinion of the Government inclined towards the third. They passed the Usurious Loans Act in 1918. This Act, as amended in 1926, provided that, in proceedings for the recovery of a loan, the court, if satisfied that the interest claimed was excessive and that the transaction was substantially unfair, might reopen the contract and grant an equitable decree. The action under the law was not obligatory, but discretionary. But this provision was evaded, as it was not applicable to a loan transaction under a mortgage deed. The money-lenders insisted on mortgages so that the court might not interfere with the rate of interest. Further measures designed to give relief to agricultural debtors have since been enacted in several States and are in contemplation in some others. It is to be observed, however, that mere legislation will not solve the problem of agricultural indebtedness. Steps must be taken to educate the cutivator and to deprive the money-lenders of their monopolistic position by establishing land-mortgage banks and co-operative credit societies.

Damdupat.

Usurious Loans Act of 1918.

Land-mortgage banks and Co-operative Societies.

In Bengal, a number of public-spirited gentlemen established Co-operative Grain Banks (*Dharmagolas*) in several villages, more than half a century ago. The cultivators deposited portions of their produce in these banks, which in times of need they were allowed to withdraw. Needy members were also given loans of grains from these deposits. Sir Daniel Hamilton lent his valuable support to this scheme. Unfortunately, all the grain banks soon ceased to exist.

Co-operative Grain Banks.

4. PROFITS

Profits of manufacture compared with those of agriculture.

The profits of manufacture are in every country higher than those of agriculture. In other words, as a money-making business, agriculture is not so profitable as manufactures are. Besides, agriculture has to depend on several uncertain factors,

such as drought or excessive rain, and the profits are consequently more uncertain than in manufactures. Manufactures involve various stages in production, and the profits are thus shared by a larger number of persons.

Full details regarding the profits of the different industries of India are not available; but the reports published by the larger business firms give us some idea of the general rates of profit. These may be said usually to range from 8 to 15 per cent. But in exceptional times like wars they rise higher. Profits have generally been high in certain industries, *e.g.*, mining, jute, etc. Statistics of profits in the small industries are very difficult to gather, but it will not be incorrect to say in a general way that they are comparatively low. Statistics.

In considering this topic we should take into account the profits of a class of persons who cannot properly be called organisers of industry, but who stand between the producer and the trader. These are middlemen who often make substantial profits. In the villages they are generally the money-lenders. They purchase wholesale the surplus produce of corn from the cultivators and send it to other parts of the country. Profits of the middleman.

The produce of agriculture or manufactures is distributed among those who own or control the different factors of production. It is not a fact, however, that the shares always go to different persons. Sometimes, all the factors are controlled by the same person, and in such cases all the shares would go to him. India, until recently, was a country mainly of small industries which were carried on by workers on their own account. They supplied the labour as well as the small capital required, and they were themselves the organisers. In a large number of cases, therefore, the whole of the produce went to the same persons and the question of distribution did not arise at all. In the institution of peasant-proprietorship also, there is hardly any distribution. Therefore, it is often held that the economic problems of India are more of production than of distribution. But it can hardly be denied that, with the rapid growth of largescale industries, the problem of distribution has recently assumed great importance.

We can form some idea of industrial profits in recent years from the Economic Adviser's Index. There was a steady advance of profits from the 1939 level. It should be remem-

bered in this connection that the profits of the large industrial concerns during World War II were nominal, in view of the fact that very large shares out of these were taken by the

[1] INDUSTRIAL PROFITS.
1939 = 100

Years		All industries	Jute	Cotton	Tea	Sugar	Paper	Iron and Steel	Coal	Cement
1940	...	138·0	359·1	142·5	99·1	100·3	236·3	103·8	100·8	102·8
1951	...	310·5	679·1	551·1	103·9	420·8	604·1	157·7	178·4	419·7
1952	...	190·6	183·4	262·8	88·8	409·8	566·8	162·6	220·4	293·4
1953	...	256·9	310·9	373·8	362·7	416·2	633·0	176·1	138·6	273·9

Government in the shape of income-tax, super-tax and excess profits-tax and other taxes. But the movement of profits was not uniform in the case of all industries or at all times. Profits were generally high in certain industries, *e.g.*, cotton textiles, paper, iron and steel and coal.

[1] *Journal of Industry and Trade, November, 1955.*

CHAPTER X

EXCHANGE

1. A BRIEF HISTORY OF INDIAN COMMERCE

Trade in ancient times:

FROM the very earliest times, trade between India and the neighbouring countries was carried on by land as well as by sea. India was in those times regarded as "the principal seat of commerce". She had commercial relations with the Accadian-Semitic Empire of Persia, and Indian produce was exported to the Kingdom of Solomon in the tenth century B.C. The range of commerce was gradually widening and as early as the sixth or seventh century B.C., India had commercial intercourse with Egypt, Phoenicia, Arabia, Syria, Persia, China, Greece, and Italy. The Hindus built ships and navigated the ocean before the time of Alexander's invasion. Later, they held in their hands all the threads of international commerce in the East, whether overland or by sea. The unknown author of that remarkable book, the *Periplus of the Erythræan Sea,* describes this commerce in detail,[1] and from him we learn that Indian vessels frequented the Arabian Sea, the Red Sea, the Persian Gulf, and the Indian Ocean, and his testimony is corroborated by that of other ancient historians and geographers, such as Pliny, Arrian, Strabo, and Ptolemy. The chief Indian seaports were: Barygaza (modern Broach), Saurastra (Surat), Masalipatan, Barbarikon, Mouziris, and Nelkunda. There were commercial towns, some of which attained great eminence. The value of this maritime commerce must have been very considerable.[2] The dimensions of the export trade with Rome were such that there was a steady drain of specie and coins from that Imperial city. The chief articles of export were rich apparel made of silk and cotton, pearls, diamonds and other precious stones, ivory, spices, drugs and aromatics; and those of import were gold, silver, brass, copper, and tin.

by sea,

[1] Vide *Periplus of the Erythræan Sea* and works by Greek writers translated by J. W. McCrindle. The term Erythræan Sea was applied to the Indian Ocean with its bays and gulfs.

[2] Strabo wrote: "I found that about 120 ships sail from Myos Hormos to India."

India's trade activity towards the east led to the foundation of colonies in Cambodia, Siam, Java, Sumatra, and the Malay Archipelago, which in course of time became prosperous countries. A brisk coastal trade was also maintained between the various seaport towns.

by land.

Trade by land with Central Asia, China and other parts of Asia, as well as with some countries of Europe, was carried on by caravans. There were several trade-routes which were availed of by merchants.[1] In addition to this foreign trade, an active internal trade was carried on betwen the different parts of the country itself. The great rivers served as commercial routes, and royal roads connected the important cities.

In mediæval times.

Commercial activities were continued in full vigour till the ninth or tenth century, A.D. During the Pathan ascendancy, however, maritime commerce was gradually abandoned; but trade intercourse by land was continued. Later on, Akbar encouraged the building of boats and ships, and, for a time, both coastal and maritime trade received an impetus. The exports of the country were much larger in volume than its imports. In 1498, the voyage of Vasco da Gama round the Cape of Good Hope opened a route for commerce between India and Europe, so much easier, cheaper, and safer than any that had previously been used, as to change completely the destinies of the country and its relations to the general affairs of the world. Foreign maritime commerce was once again revived, this time, however, by Europeans. In the 18th and 19th centuries, the Dutch, the Portuguese, the French and the English companies competed with one another for the largest share in the commerce with India. Ultimately, the English East India Company was able practically to oust its rivals from Indian waters. The invention of steamships led to a further increase of maritime commerce. And lastly, the opening of the Suez Canal brought India much nearer to Europe and gave a fresh impetus to the commercial development of the country.

In modern times.

The foreign trade of India has now vastly increased; but, until recent times, Indians had a comparatively small share in

[1] Trade routes were classified by Kautilya under four heads, namely, those going north, south, east and west, respectively. The northern and southern routes were regarded as very important.

it. The situation, however, has now completely changed. The bulk of the internal trade remains in the hands of Indians as before.

2. THE INDIGENOUS SYSTEM OF INLAND TRADE

Every village has its resident traders. In many instances the chief trader combines the functions of the money-lender and grain-merchant with his own vocation. Buying and selling are done in the markets, which meet daily in the more important villages and on fixed days in the week in other places. In addition to the shopkeepers, there are hawkers or itinerant sellers who supply the people with articles in their homes. The religious festivals and fairs, some of which are attended by large numbers of pilgrims and visitors, also serve as important marts for the exchange of commodities.

Indigenous system of internal trade. The village trade.

Fairs and religious festivals.

A portion of the village produce is sold in the village markets for local consumption, and the surplus is handed over to the agents in the towns and thence despatched to trade centres in other parts of the country, or exported out of it. Imported merchandise is distributted by the same machinery working in the opposite direction. Internal trade may be divided into two kinds: (*a*) traffic with the ports, and (*b*) trade between different parts of the country. The former is largely concerned with the collection of agricultural and industrial products for export, and with the distribution of imported merchandise, and the latter with supplying the surplus produce of one part to other parts of the country. Trade passes through the hands of a considerable number of middlemen.

Two kinds of internal trade.

Towns spring up where trade activity increases, and historical cities often lose their importance as soon as they cease to be trade centres. Employment in trade often gives rise to trading castes or classes. These have now lost much of the importance which they once possessed, but they still maintain a considerable degree of organisation, and retain a good part of the trade of the country in their hands. The Marwaris of Rajasthan are found in almost every part of the country. In Madras the Chettis form the most important trading community. In Bombay State the largest share of trade is in the hands of the *Parsis*, the *Gujratis* and the *Bhatias*, while the *Banias* still monopolise the bulk of the trade of Northern India.

Growth and decay of towns. Trading castes.

Among the Mahomedans the most notable commercial classes are the Borahs and Khojahs of Bombay and Gujarat.

3. TRANSPORT AND COMMUNICATIONS

The old system.

Means of communication in early times.

For the growth of trade and commerce the development of means of rapid and cheap transportation is essential. Till the middle of the last century pack-animals, such as bullocks, horses, camels and mules, as well as carts drawn by these animals, were the only means of transport by land; while country-made boats were the instruments of riverine transport. With the development of railway communication, the importance of pack-animals and carts has diminshed, but they are still utilised for carrying goods to and from the towns, ports or railway stations.

Roads, rivers, canals, etc.

From the very earliest times, the construction of roads and canals was considered among the chief duties of the rulers. Under the Hindu as well as the Mahomedan rule, roads and canals were constructed, which connected the outlying districts with the capital. Major Briggs, speaking of these roads, remarked that for bold engineering skill and wonderful contempt of difficulties, they deserved "to rank with the works of the old Romans". Their number however, was not as large as could be desired and their condition was not always satisfactory. The great rivers did, no doubt, furnish means of communication and some facilities of transport, but they were found insufficient for the purpose of keeping up intercourse between the different parts of the country throughout the year.

East India Company.

Under the Crown.

Railways.

In the early days of the East India Company, the Government did not recognise the execution of public works as a necessary part of their policy. In the later years of the Company, however, matters began to improve, and, after the Mutiny of 1857 the construction of public works went on with increasing speed. Railways now connect all the principal districts and cities, the great rivers have been bridged, the country has been covered with roads, and the rivers and canals afford increasing facilities of transport.

Roads.

The railways, instead of superseding the roads, have actually increased the traffic on them. Side by side with the construction of railways, progress has been made with the construction

of roads. Trunk roads now run to and from all important centres, and innumerable feeder-roads connect the trunk roads with one another. The recent development of motor transport has given an impetus to the construction and improvement of roads. This has created a problem for the railways in many cases, as short-distance traffic is often being diverted from the railways to the roads.

Steamship communication. Steamship communication has been developed in those parts where the rivers are navigable. The canals also offer some facilities of communication and transport. It is, however, in maritime transport that the greatest development has taken place.

Aviation. Civil aviation is making rapid progress in India, and air transport services between India and other countries have been or are being established. **Communication of intelligence.** The post office, the telegraph, the telephone, and the wireless afford great facilities for the communication of intelligence, so that the slightest alteration in trade conditions in any part of the world has its repercussions in India. Lastly, direct and speedy radio-telephone and television services between India and the rest of the world are now serving as great unifying factors.

4. THE PRESENT POSITION OF COMMERCE AND TRADE

Internal trade. In a vast country like India, the internal trade cannot but be immense, and the volume is daily increasing. But it is not possible to measure this volume of trade with any degree of accuracy.

The great bulk of the internal trade, representing about two-thirds of the total, flows directly to and from the chief ports; the balance is the trade within the different States. The traffic flowing from the port towns to the interior of the country consists principally of foreign merchandise imported by sea, and that flowing to the port towns from the country-side comprises chiefly raw materials and in a smaller degree industrial products. Among the States, West Bengal's position in the inland trade is impotrant on account of jute, jute goods, rice and other food-grains, oil-seeds, coal and tea produced in the State. Bihar (including Chota Nagpur) is important for its production of coal and other minerals. Tea is the staple product of Assam. Cotton, wheat and seeds in

Bombay State, cotton and ground-nuts in Madras State, and spring and winter crops (*e.g.*, wheat, gram, linseed, rapeseed, etc.) in Uttar Pradesh and East Punjab chiefly account for the large movement of these articles to the various seaports. Uttar Pradesh, well served by railways, conducts a larger business in purely inland trade than any other State of India.

Foreign commerce.

The inland trade of the country is much larger in volume and value than its sea-borne trade. But the foreign commerce of India is very important from many points of view.

Sea-borne trade.

The First World War produced a very stimulating effect on Indian foreign trade in some important lines of export, such as iron and steel, leather and jute goods, and cotton manufactures. But in other respects the growth of India's foreign trade received a serious set-back. India lost some of her most valuable customers because they became enemy countries or countries ocupied by the enemy. The shortage of available tonnage and the imposition of blockade also served to reduce the volume of her trade with allied and neutral countries.

The Great Depression of 1929-33.

During 1929-33, the foreign trade of India passed through a phase of acute depression. The different commodities entering into the lists of imports and exports were also differently affected, though their relative positions were not very much altered. Lastly, the relative positions of different countries as purchasers of Indian exports or as suppliers of imports to India were also affected both by general economic factors and by the fiscal policies and other measures adopted by them to cope with the depression. India's foreign trade began to decline by the middle of 1929, reaching the lowest point in 1933-34, in which year the total value of foreign trade was cnly Rs. 336 crores.

Balance of Payments.

Inter-war period.

The main features of India's balance of payments in the inter-war period may be summed up as follows: In the first place, she incurred heavy obligations on service account and these obligations were inelastic. Secondly, she was an exporter of primary products, and the fluctuations in the receipts on merchandise account were very wide. Thirdly, gold movements, and, to a certain extent, the flow of capital acted as the balancing factors. The first two obviously constituted weaknesses in her balance of payments position.

During the war years of 1939-45 important changes took place in the structure of India's international transactions. These changes were: first, a diminution in India's payments on service account owing to the accumulation of sterling assets in her favour and the repatriation of most of her sterling debt; secondly, an improvement in her terms of trade due to the relatively greater rise of the prices of primary products and the significant emergence of India as an exporter of manufactured articles; and thirdly, a restriction in the scope of gold movements due to many external and internal factors. Changes during World War II.

At the close of World War II, India's balance of payments position became stronger. But there were some elements of weakness. Food, which did not figure much in India's pre-war imports now came to be imported on a scale five or six times greater than before. The demand for certain kinds of machinery urgently required for heavy arrears in repairs and replacements could not also be postponed any longer. Post-war period.

The distinction between soft and hard currency areas, which arose after World War II, created another problem. It now became essential to achieve not merely an overall balance but a balance in respect of hard currency areas. The changes in the structure of India's foreign trade during 1946-49 were far-reaching. As a result of Partition, the sources of many staple commodities and raw materials which had figured as important categories of pre-war exports were included in Pakistan. From an exporter of raw jute and raw cotton, India was turned into a heavy importer of both these articles for a time. A good part of the total exports of hides and skins in prepartitioned India now belongs to Pakistan. Jute manufactures, however, retained their prominent position in the export trade. On the import side, as already noted, the most directly visible change was the large imports of foodstuffs. The deterioration in the ratio of exports to imports was mainly due to the large imports of food-stuffs. These were also one of the principal causes of India's deficit with hard currency areas. Soft and hard currencies. Partition. Changes in structure.

There were many obstacles to the development of India's exports. But in spite of these hindrances the export trade greatly improved in 1949-50 while vigorous restriction kept imports down. The value of India's export and import which rose to a record level due to the Korean war boom afterwards Obstacles. Pre-war and Post-war patterns of India's exports.

came down to the normal. India's adverse balance of trade still continues though a big decline in such balance was recorded in 1953-54 when the import of food grains was considerably low on account of increased local production.

Imports in 1954-55.

In 1954-55 the value of imports of raw materials stood as follows: mineral oils, Rs. 82·8 crores; vegetable and animal oils, Rs. 7·2 crores; gums, resin and lac, Rs. 31·8 crores; seeds (including nuts for oils), Rs. 7·8 crores; Cotton, raw and waste, Rs. 58·4 crores; wool, raw and tops, Rs. 8·2 crores; total Rs. 187·3 crores. In the same year the value of imports of articles wholly or mainly manufactured stood as follows: Chemicals, Rs. 17·8 crores; drugs and medicine, Rs. 13·1 crores; dyes and tanning substances, Rs. 17·8 crores; instruments, apparatus appliances, etc. (excluding electrical goods), Rs. 9·5 crores; machinery and mill work, Rs. 81·6 crores; metals—iron and steel and manufactures thereof, Rs. 30·1 crores; metals—other than iron, steel and manufactures thereof, Rs. 26·1 crores; paper, paste board and stationery, Rs. 13·7 crores; vehicles (excluding locomotives, etc. for railways), Rs. 33·8 crores; artificial silk yarn, Rs. 12·7 crores; electrical goods and apparatus (other than machinery), Rs. 11·3 crores; total, Rs. 304·5 crores. Thus the value of the total imports in 1954-55 was Rs. 491·8 crores.

Exports in 1954-55.

In 1954-55 the value of exports of Indian articles wholly or mainly manufactured stood as follows: tanned hides, Rs. 7·9 crores; tanned skins, Rs. 10·7 crores; cotton twist and yarn, Rs. 0·3 crore; cotton piece goods (millmade), Rs. 54·8 crores; haberdashery and millinery, Rs. 2·9 crores; gunny bags, Rs. 57·9 crores; gunny cloth, Rs. 62·5 crores; artificial silk piecegoods, Rs. 0·6 crore; woollen carpets and rugs, Rs. 3·9 crores; coir manufactures, Rs. 8·3 crores; paraffin wax, Rs. 1·9 crores; instruments, apparatus, appliances and parts thereof (including electrical goods), Rs. 1·5 crores; machinery and millwork (including belting for machinery), Rs. 0·5 crore; paper, paste board and stationery, Rs. 0·9 crore; rubber manufactures, Rs. 1·2 crores; metals other than iron and steel and manufactures thereof, Rs. 1·2 crores; total, Rs. 250·6 crores. In addition to the sea-borne and air-borne trade with foreign countries dealt with so far, India has substantial trade relation with Pakistan, Afghanistan, Iran and Burma by land. The balance

of trade in merchandise during 1955-56 was— 81·52 crores of rupees.

Share of Indian ships in foreign and coastal trade.

The bulk of the carrying trade with India is done by British ships. In the pre-war year 1936-37 the tonnage under the British flag was nearly 65 per cent., Japanese vessels carried about 9 per cent., while German and Italian vessels carried about 7 per cent. each of the total trade. The other countries whose vessels were engaged in the carrying business were the United States of America, Norway, Holland, and France. In 1948-49, as in pre-war days, the bulk of the carrying business with India was done by British ships. During this year, the tonnage under the British flag was nearly 63 per cent. Indian vessels carried about 1·5 per cent. while foreign vessels other than British carried the rest. Thus there was a slight improvement in the amount of carrying trade done in Indian ships. Attempts were made for improvement in this direction under the First Five-Year Plan. On 31st December, 1955, the tonnage of Indian ships of over 150 G.R.T., was about 4,80,000 G.R.T. The shipping policy committee (1947) had recommended a target of two million tons in order to secure for Indian shipping (*i*) 100 per cent. of the coastal trade of India ; (*ii*) 75 per cent. of India's trade with Burma, Ceylon and other neighbouring countries ; (*iii*) 50 per cent. of India's distant trade ; and (*iv*) 30 per cent. of the trade formerly carried by Axis vessels in the orient. At present, Indian ships carry 100 per cent. of India's coastal trade, about 40 per cent. of the trade into the adjacent countries and 5 per cent of the trade with distant countries. Further attempts will be made under the Second Five-Year Plan to increase India's share.

5. PRICES

Changes in prices.

From about the middle of the nineteenth century a tendency towards a rise in prices became visible. This tendency became more progressive during the first two decades of the twentieth century. The decennial average for the period 1901-10 was higher than the average for the previous decennial period, and the average for the period 1911-20 higher than that for the period 1901-10.

Prices soared very high between 1917 and 1920, the rise being especially marked in the prices of food-grains. There-

after, there was comparative stability of prices up to 1929, in which year prices fell suddenly. During the next four years (the period of the Great Depression) prices went on falling, the lowest point being reached in the first part of 1933. There was a slow, but nonetheless noticeable, revival of prices till the beginning of World War II.

Great Depression.

With the outbreak of the Second World War in 1939 prices in India, along with those of other countries, began to soar upwards. By 1943 the prices reached unprecedented heights and the price-level showed no signs of declining even after the termination of World War II. The rise in prices continued till 1947-48 when it was expected that a stability in prices would be maintained. The Korean war, however, led to a further rise in prices, the maximum reached by the general index being 448. With the disappearance of the Korean boom prices fell substantially and came down to 381 in 1952-53. Thereafter, there was a slow but gradual rise and the index number of wholesale prices stood at 395 on the 22nd May, 1954. The index for foodstuffs on that date was 364·2 ; that for industrial raw materials, 463·9 ; for manufactures, 380·7 ; for semi-manufactures, 362·1, and for the miscellaneous group 687·1.

Index-numbers of wholesale prices.

The following table gives the index-numbers of comparative wholesale prices in India:

Commodity Groups:	1948-49	1953-54	(September, 8) 1956
Food articles ...	382·9	384·4	395·5
Industrial raw materials ...	444·8	467·7	508·3
Semi-manufactures ...	327·3	359·2	408·6
Manufactured Articles ...	346·1	367·4	391·4
Miscellaneous ...	525·2	686·6	552·4
General	376·2	397·5	420·4

CHAPTER XI

EXCHANGE—(*Continued*)

CURRENCY

MONEY was in use in India in the very earliest times of which we have record. At the very dawn of history, we find the Indian people already well advanced in civilisation. They were at the time actually entering upon what is known as the manufacturing and commercial stage. Such a state of society implied exchange, and exchange implied the use of money. **Antiquity of money in India,**

The great antiquity of Indian money is proved from various sources, the chief amongst which are (*a*) the most ancient accounts of the population and condition of society in India; (*b*) the Vedic writings; (*c*) the code of Manu; (*d*) the Buddhistic works; (*e*) numismatic and archaeological remains; and (*f*) comparative philology.[1] Various kinds of coins made of gold, silver, and copper were in use; and many other substances, such as clay, lacquer and shell (*cowry*) were also used for exchange. Rulers had the prerogative of coining gold or silver, though adequate measures were rarely taken to prevent coinage by private persons. **proved from various sources.**

During the Muslim rule, a reform of the currency was attempted, and several interesting monetary experiments were made. The rulers began to enforce the prohibition of coinage by private persons. Mahomed Tughlak initiated a new scheme of finance, in pursuance of which he at first debased the silver coins, and ultimately issued copper pieces, which were to circulate at the nominal value of silver coins. But this bold scheme, which was in reality a forerunner of the modern system of paper money, failed. The discovery of America and increased commercial relations with Europe led to an influx of silver into India in exchange for spices and gold. Akbar attempted to introduce a uniform standard, but his efforts did not fully succeed. In the seventeenth century, the East India **During Mahomedan rule.**

[1] Del Mar, *History of Money*, p. 58.

Coins of East India Company.

Company also began to issue coins for use in their factories. During the remaining years of Moghul rule, coins continued to be struck at various places, and they were of different weights and denominations.

In the nineteenth century.

At the beginning of the nineteenth century, some parts of India (*e.g.*, Madras) maintained a gold standard and currency; elsewhere, as in Bengal, a silver standard obtained, with gold coins in concurrent circulation. Throughout India the coins, whether of gold or silver, differed in denominations as well as in intrinsic value, even with the same district. The resulting confusion afforded an opportunity to a class of indigenous bankers, who made profit by charging high fees or *batta* for exchanging one kind of money for another. The media of exchange failed, therefore, to function as measures of value. In 1806, the Directors of the East India Company gave their approbation to the demand for a uniform coinage, and the first step that was taken was to replace the old miscellaneous coinages by four denominations of rupees and fewer kinds of gold coins. In 1818, the rupee was substituted for the gold pagoda in Madras; and, in 1835, the rupee, which weighed 180 grains, and contained 165 grains of pure silver, was made the standard coin for the whole of British India. It was further enacted that no gold coin would henceforward be a legal tender of payment in any of the territories of the Company. The coining of gold mohurs (15-rupee pieces) was authorised by the Act of 1835, and in 1841 a Proclamation authorised officers in charge of public treasuries "freely to receive these coins." A few years later, however, the effect of the Proclamation was found embarrassing to the Government of India, on account of the extensive discoveries of gold in Australia, which resulted in diminishing its value in relation to silver. Consequently, in 1852, the Proclamation of 1841 was withdrawn. In 1864, the Government of India proposed that sovereigns and half-sovereigns coined at any Royal Mint in England, Australia and India, be made legal tender at the rate of one sovereign for 10 rupees, and that Government currency notes should be exchanged either for rupees or for sovereigns at that rate. The Imperial Government, though unwilling to make the sovereign legal tender, accepted the second proposal.

India thus continued to be a silver standard country.[1] Silver was received in the Indian mints without limit when tendered for coinage. Consequently, the value of the rupee in gold depended on the gold price of the silver bullion. The discovery of new silver mines and the demonetisation of silver by many advanced countries caused a heavy fall in the value of silver. The maintenance of bimetallism by the countries of the Latin Union, which was formed in 1865 with France as the leading member, served for a time to keep up the rate of exchange between silver-standard and gold-standard countries, in the face of a continuing fall in the market value of silver. But these countries were compelled to give up bimetallism in 1873, and thereafter the exchange value of the rupee in terms of gold fell continuously. The violent oscillations in the rate of exchange upset trade conditions and hindered the development of India by foreign capital. Besides, the Government of India suffered great loss in making remittances to meet its obligations in England. The number of rupees required for defraying the sterling expenditure in England increased with each fall in the exchange rate of the rupee. The Government had also to pay compensation allowances to British officers to make good the loss which the latter suffered. This rendered necessary a considerable increase in taxation; and the violent fluctuations in the value of the rupee made the preparation of the Budget an exceedingly difficult task. In view of this embarrassment, the Government tried for a number of years to promote a system of International Bi-metallism. But when their efforts became ineffectual they appointed, in 1892, a Committee, under the presidentship of Lord Herschell. In accordance with the recommendations of this Committee, the Coinage Act of 1893 provided for the closing of the Indian mints to the free coinage of both gold and silver, the Government retaining the power to coin rupees on its own account. Notifications were also issued arranging for (*i*) the receipt of gold at the Indian mints in exchange for rupees at the rate of 16d. per rupee, and for (*ii*) the receipt of sovereigns and half-sovereigns in payment of dues to the Government at the rate of Rs. 15 for a sovereign. The net results of these measures were: (1) that the exchange value of the rupee

India a silver-standard country till 1893.

Fall in the value of rupee.

Consequences of the fall.

The Herschell Committee.

[1] *Report of the Indian Currency Committee*, 1898, pp. 1 and 2.

ceased to coincide with the price of silver, and (2) that silver ceased to be the standard of value, though it continued to be used as the chief material of currency. Gold, however, did not become legal tender.

The Fowler Committee.

In 1898, another Committee was appointed, under the chairmanship of Sir Henry Fowler. This Committee reported in 1899. Their chief recommendations were: (1) that the British sovereign should be made a legal tender and a current coin in India; (2) that the rupee should also continue to be legal tender to an unlimited extent; (3) that the sterling rate for the rupee should be fixed at 1s. 4d.; (4) that the Indian mints should be thrown open to the unrestricted coinage of gold; (5) that the mints should not be reopened to the free coinage of silver; (6) that, though the Government should continue to give rupees for gold, fresh rupees should not be coined until the proportion of gold in the currency was found to exceed the requirements of the public; and (7) that any profit on the coinage of rupees should not be credited to the revenue, or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances.

Government's approval of recommendations.

Adoption of the Gold-Exchange Standard.

The Government of India gave effect to these recommendations. The sovereign was declared legal tender, but the rupee also continued to be legal tender to an unlimited amount. The monetary standard which was thus established came to be known as the Gold-Exchange Standard, or, in other words, a Gold Standard without a gold currency.[1] The Gold-Exchange Standard might be said to exist under the following conditions: (1) gold did not circulate to an appreciable extent within the country; (2) the local currency was not necessarily redeemable in gold for internal use; (3) the Government or the Central Banks could make arrangements for the provision of foreign remittances in gold at a fixed maximum rate in terms of the local currency; and (4) the reserves necessary to provide these remittances were kept, to a certain extent, abroad.

[1] The Hilton Young Commission expressed the view that it should have been called a "Sterling-Exchange Standard".

The immediate object of the closure of the mints was to raise the value of the rupee by restricting the supply. But the first result of the closure of mints was that the rupee fell in value. After January, 1895, however, it rose by gradual steps till in 1898 it stood at 1s. 4d. From 1898 to 1916 the value of the rupee did not fluctuate to any important extent, except for a brief period during the crisis of 1907-8, when the rupee fell considerably below specie point.

Immediate effect. Further fall in the value of rupee. The rupee almost steady in value from 1898 to 1916.

This currency experiment was the subject of criticism of various sorts. The admirers of the system claimed for it great and unqualified success.[1] Its detractors pointed to the inelasticity of the system as a great defect.[2]

Criticism.

Now, admitting that the system was not perfect, what were the alternatives to it? Some people, whose number was exceedingly small, advocated a return to the old system, *viz.*, the silver standard ; but to do so would have meant a recurrence of the state of affairs which had made the adoption of the Gold-Exchange Standard necessary. Bimetallism was another alternative, but it could be successful only if it was accepted by at least a majority of the advanced nations, which was very unlikely to happen. The third alternative was the adoption of the Gold Standard in its entirety.

Alternatives suggested: Silver currency, Bimetallism, Gold Standard in entirety.

The conclusion at which the Chamberlain Commission of 1913 arrived on this point was that gold in circulation was "wasteful", and "that it would not be to India's advantage to encourage such circulation". This, however, did not dispose of the question of the adoption of a Gold Standard.

Chamberlain Commission's conclusion.

[1] Keynes worte in the *Economic Journal* (October, 1914): "The Gold-Exchange Standard, based on a reserve in London, has enabled the Indian currency system to meet the crisis better than that of almost any other country." The Gold-Exchange Standard was adopted by the Phillippines, Mexico, and the Straits Settlements.

[2] In busy seasons, they pointed out, an increased currency was required, which, in a dull season, led to an inflation of the currency from a want of automatic regulation, and thus raised prices. They argued that the Gold-Exchange Standard failed to secure stability of purchasing power, for during the period 1893-1923, prices varied more in India than elsewhere. Further, they contended that during the crisis of 1907-8 the system was almost on the verge of a collapse, and that in the post-war crisis of 1919-20 it completely broke down. As for the remission of taxation, they argued that there had really been none, for the remitted taxation represented the additional amount that had been taken from the taxpayers by an artificial appreciation of the rupee. Lastly, the Gold-Exchange Standard was a very complicated mechanism, and, in the words of Prof. Cannan, it was "neither fool-proof nor knave-proof."

Suggested gold mint in India.

The advocates of a gold currency demanded the establishment of a gold mint in India. In March, 1912, Sir V. D. Thackersey moved a resolution in the Imperial Legislative Council urging that the Indian Mints be opened to the free coinage of gold and that distinctive Indian coins be issued. A vigorous agitation was also carried on by Sir M. de P. Webb and his supporters to secure the same object. The Chamberlain Commission, after fully discussing the question, remarked: "We cannot recommend on its merits the establishment of a gold mint in India. But if Indian sentiment genuinely demands it, and the Government of India are prepared to incur the expense, there is, in our opinion, no objection in principle, either from the Indian or the Imperial standpoint, provided always that the coin to be minted is the sovereign or the half-sovereign."

Device to maintain Gold-Exchange Standard.

A few words may be said here about the device by means of which the Gold-Exchange Standard was made to function in India. The Government sold and bought rupee in India and in London at the rate of 1*s*. 4*d*. the rupee *plus* or *minus*, as the case might be, the approximate cost of transport. And for these transactions, a special fund, called the Gold Standard Reserve, was created out of the profits derived from the coinage of rupees in 1900.

Gold Standard Reserve.

On the recommendation of the Currency Committee of 1919 a portion of the gold in the Gold Standard Reserve, not exceeding one-half, was held in India; the sterling investments, however, continued to be held in London. In 1921-22, the excess over £40 million in this Reserve was used to cancel created securities. From 1922-23 to the date of establishment of the Reserve Bank (in 1934) the excess over this sum was annually added to the general revenues. If it had not been for the rash policy of selling Reverse Councils amounting to over £55 million in the crisis of 1919 and 1920, India would have had a Reserve of over £95 million at that time.

Break-down of the Gold-Exchange Standard.

With the outbreak of World War I there was a general dislocation of trade and industry, resulting in a weak exchange. This was met by offering sterling bills or reverse drafts up to a maximum of £1,000,000 a week, and the stability of the rupee was maintained till the end of 1916. The price of silver rose continually and it was no longer economically possible

for the Secretary of State to sell Council Bills, as silver continued to rise till in December, 1919 it reached the abnormally high figure of 78*d.* per ounce. The rate of Council Bills was consequently raised till in December, 1919 it was as high as 2*s.* 4*d.* Besides, as sterling had depreciated in terms of gold, the rate for Council Bills had to be fixed a little higher to make allowance for this depreciation. The Gold-Exchange Standard thus broke down.

Babington-Smith Committee.

It was now found necessary to appoint a Committee to consider the question. The Committee under the chairmanship of Babington-Smith recommended a rate of 2*s.* (gold) for the rupee. The Committee further recommended that during periods of exchange weakness, the Government of India should be authorised to sell Reserve Council Bills.[1]

Mr. Dalal's Note of Dissent.

Sir Dadiba Dalal wrote a Note of Dissent, in which he strongly criticised the exchange and currency policy which had been pursued by the Secretary of State and the Government of India during and after the First World War. He urged that the ratio between the gold sovereign (or *mohur*) and the rupee should continue to be 15 to 1, any attempt to fix the rate at 2*s.* being, in his opinion, likely to lead to disastrous consequences. He suggested that Council Bills should be sold only for Government requirements and not for trade purposes, and that 'Reverse Drafts' should be sold only at 1*s.* 3$\frac{29}{32}$*d.*, the proceeds of which were to be kept apart and utilised only for meeting drafts drawn by the Secretary of State. He expressed himself in favour of a Gold Standard, and observed: "India is fairly entitled to a system of sound money. The Gold-Exchange Standard has failed to provide such a system."

Government's action.

The recommendations of the majority of the Babington-Smith Committee were accepted by the Secretary of State, and Mr. Dalal's note of warning was ignored. The publication of the Report coincided with a keen demand for remittances to London, and steps were at once taken to maintain the new exchange rate of 2*s.* gold recommended by the Committee by the offer of Reverse Councils at a rate founded on that ratio. The attempt to hold the rate at 2*s.* gold led to enormous

Enormous losses.

[1] *Report of the Babington-Smith Committee,* 1920.

losses to the Government of India, and proved a dismal failure. The Government thereupon tried to maintain exchange at 2*s*. sterling. This attempt resulted in a further enormous loss to the Indian Exchequer. There were strong protests from the Indian public against this squandering of the resources of the country. The attempt was therefore abandoned from the 28th September, 1920.

Further enormous loss.

Grave blunder.

Huge losses to the mercantile community.

The blunder committed by the Government in hastily accepting the recommendations of the Babington-Smith Committee at a time when world conditions were quite unsettled involved a huge loss not only to the Indian Exchequer but to the entire people of the country. It was not long before the tide of exchange began to turn. Early in 1921 exchange fell below the level of 1*s*. 3*d*. sterling and 1*s*. gold. The 2*s*. ratio passed in 1920 remained on the statute-book, but was ineffective for purposes of tender of gold to the Currency Office.

2s. ratio ineffective.

Hilton Young Commission Report, 1925-26.

A Royal Commission, under the presidentship of Mr. Hilton Young, was appointed towards the end of 1925 to "examine and report on the Indian exchange and currency system and practice." The Commission came to the conclusion that a Gold-Exchange Standard was "not the best for India under present conditions," and that, "in order to secure public confidence in India, the currency of the country must be linked with gold in a manner that is real and conspicuously visible, or in other words, that it is necessary to establish a true Gold Standard." They added, however: "It should be understood that this does not necessarily imply a gold currency." The main feature of the system recommended by them—the Gold Bullion Standard—was that an obligation should be imposed by statute on the currency authority to buy and sell gold without limit at rates determined with reference to a fixed gold parity of the rupee, but in quantities of not less than 400 fine ounces, no limitation being imposed as to the purpose for which the gold was required. They recommended that the rupee should be stabilised in relation to gold at a rate corresponding to an exchange rate of 1*s*. 6*d*. The necessity of unity of policy in the control of currency and credit for the achievement of monetary stability led the Commission to urge the establishment of a Reserve Bank. The other important recommendations related to the unification of the

Gold Bullion Standard.

Gold Standard and Paper Currency Reserves and to the re-issue of one-rupee notes.

Sir Purushottamdas Thakurdas's Note of Dissent.

Sir Purushottamdas Thakurdas appended a Note of Dissent to the Report, in which he urged, among other things, the establishment of a Gold Standard proper and the fixing of the rupee at 1*s*. 4*d*.

The Currency Bill.

The main proposals of the Commisison were placed before the Indian legislature in three Bills. The object of the Currency Bill was to give effect to those recommendations of the Hilton Young Commission which related to the immediate stabilisation of the rupee in relation to gold. The Bill provided for fixing the gold value of the rupee at 1*s*. 6*d*. Another provision was to remove the legal tender quality of the sovereign and the half-sovereign.

The ratio question gave rise to a great deal of controversy. When the Currency Bill came up for discussion before the Legislative Assembly, Sir Basil Blackett, Finance Member, defended the 1*s*. 6*d*. ratio.

Demonetisation of sovereign.

The demonetisation of the sovereign was objected to by many of the elected members of the Assembly, who considered the provision as a retrograde one and thought it would stand in the way of India ever attaining a Gold Standard with a gold currency in future.

Bill passed.

The Bill, however, was passed in 1927. The ratio was kept fairly at 1*s*. 6*d*. by means of deflation, stringency of the money market and a sterling loan raised in England.

The nature of the monetary standard.

The Gold-Exchange Standard was thus rehabilitated with a legal sanction behind it. The external value of the rupee was directly linked to gold. Sterling now became merely a convenient medium for securing that connection.

The years 1927 and 1928 were marked by a comparative stability of economic conditions. But with the progress of the Great Depression (1929-33) it became increasingly difficult to maintain exchange stability. The Government of India were then compelled to sell Reverse Councils to keep up the rate of exchange. The climax was reached when England suspended the Gold Standard on the 21st September, 1931. The Government of India at once suspended the Currency Act of 1927, and thus severed the link of the rupee with gold. But only three days afterwards, on the 25th September, 1931, the rupee was

Sterling Exchange Standard.

Exchange stable after 1931.

linked to sterling. There was, on the whole, a marked stability of exchange between September, 1931, and the first few months of the year 1938. Thus, India was made to revert to the Sterling-Exchange Standard, in spite of the warnings of the Hilton Young Commission. The chief explanation of exchange stability from 1931 was to be found in the regular exports of huge quantities of gold from India from September, 1931.

Reform of coinage.

A few words ought to be said here about the coinage. In 1896, a reform of the coinage was undertaken. The '1835' rupees ceased to be re-issued, and in 1901-2 orders were given for the cessation of the re-issue of the '1840' rupees. In 1906, bronze coins were issued as tokens for small transactions, and they were now gradually superseding the old copper coins. In 1909, one-anna nickel pieces began to be coined; later on, four-anna and two-anna nickel pieces were also coined. A Decimal Coinage Act was passed by Parliament in 1956.

Decimal coinage.

Paper Currency.

As in other countries, the origin of the Paper Currency system in India may be traced back to the bank-notes issued in the early days of the East India Company by private banks, some of which carried on both mercantile and banking business. These notes were not legal tender, and their issue was unregulated by law. The circulation was generally confined to the locale of the issuing banks. By 1830 most of the private banks ceased to issue notes. Meanwhile, the three Presidency Banks of Bengal, Bombay and Madras, were empowered to issue notes in accordance with the regulations of their respective charters of incorporation. These charters were replaced by new Acts in 1839, 1840, and 1843, which fixed the maximum amount of Note Issue for each Bank. The bank-notes served to familiarise the public with paper money, although they were not legal tender.

Early history.

Issue by Government.

After the Mutiny, the Government considered it desirable to take steps to develop the Paper Currency. Accordingly, by an Act of 1861 the right of Note Issue by private banks and Presidency Banks was abolished, and the Government undertook the monopoly of Note Issue through a Government department.

Denomination of Notes.

Under the Paper Currency Act, 1905, paper currency notes of the denominations of Rs. 5, Rs. 10, Rs. 50, Rs. 100, Rs. 500, Rs. 1,000 and Rs. 10,000 were issued to the public. They were

issued without limit in every Paper Currency office against rupees or gold. There were eight circles of issue, having their headquarters at Calcutta, Kanpur, Lahore, Bombay, Karachi, Madras, Calicut and Rangoon respectively; and until 1910, the notes were legal tender only within the particular circle from which they had been issued. The Government were not legally bound to cash any notes outside their circle of issue; but, as a matter of fact, they were cashed in any Government Treasury (if they were not for very large sums) and also by the Presidency Banks. In 1910 the ten and fifty-rupee notes were made universal. The hundred-rupee note was also declared universal in 1911.

Circles of issue.

The law required that a Paper Currency Reserve should be held against the notes equal to their full value. Under the Act of 1861 notes could be issued against the Securities of the Government of India up to a maximum of Rs. 4 crores. The issue of notes against Securities was raised by various Acts. An Act of 1900 made it legal to hold part of this gold in London. In 1905, the Government was given full power to hold the metallic portion of the Reserve or any part of it, at its discretion, either in London or in India, or partly in both places, and also in gold coin or bullion, or in rupees or silver bullion, subject only to the exception that all coined rupees should be kept in India.

Paper Currency Reserve.

The needs of finance for World War I, together with a heavy demand for Council Bills, necessitated a large expansion of Note Issue. But the strengthening of the Reserve was rendered difficult by the high price of silver, which prevented the coinage of fresh rupees and the absorption of large quantities in the up-country districts. The result was a large increase in the fiduciary issue. By various Acts and Ordinances the fiduciary issue was increased to Rs. 120 crores in 1919.

Effect of World War I on the composition.

During the inter-war period the composition of the Paper Currency Reserve was regulated by the Act of 1920 as amended by the Acts of 1923 and 1925. Under these Acts it was provided that the metallic portion of the Reserve should not be less than 50 per cent. of the Currency Notes in circulation. But as it was found difficult to conform to this condition, it was further provided that the securities should be limited to 85 crores, which amount was subsequently increased to 100

Paper Currency Act, 1920.

crores. To remedy the inelasticity of the currency the Act of 1920 (amended in 1923 and 1925) made two new departures in the currency practice. In the first place, it provided that 50 per cent. of the Paper Currency Reserve might be held in securities, so that with every increase in the metallic currency, the scope for the expansion of Paper Currency would largely increase, and consequently the inelasticity of currency would be gradually remedied to a greater and greater extent. In the second place, it provided for the issue of additional Paper Currency up to 5 crores against bills of exchange or *hundis* maturing within 90 days, to the Imperial Bank of India at a rate of interest not below 8 per cent. The Act had to be so amended as to allow a loan of Rs. 4 crores when the bank rate was 6 per cent., and thereafter with every rise in the bank rate by one per cent. an additional issue of 4 crores would be available up to a maximum of 12 crores. This provision corresponded in some measure with the issue of emergency currency by the Bank of England.

Issue of emergency currency.

During World War II there was an enormous expansion of paper currency. The total amount of notes issued increased from Rs. 211 crores in 1938-39 to Rs. 1,179 crores in 1945-46, thus causing an immense rise in prices which led to the disastrous Bengal famine of 1942-43 and entirely unbalanced the economic structure of the country. The paper currency reached its maximum in 1947-48 but subsequently began to decline and stood at Rs. 1,157 crores.

Location.

The location of a portion of the Reserve in London formed the subject of adverse criticism. As the object of the Reserve was the redemption of Notes in India, there was no valid reason why the whole of it should not be held in India. The Hilton Young Commission's recommendations relating to the amalgamation of the Gold Standard and Paper Currency Reserves were carried into effect in 1935.

Council Bills.

Home Charges.

The political and economic connection of India with Great Britain necessitated the remittance of large sums of money annually to the Secretary of State for India. These remittances constituted what were known as the Home Charges.[1]

[1] The Secretary of State for India required money in London for disbursement on behalf of India, and many merchants abroad required funds for remittance to India for the purchase of Indian produce. When the Secretary of State for India sold Council Bills on the Government of

Up to 1905, the sale of Council Bills was limited to the requirements of the Secretary of State for India. But the experience gained from the working of the Gold-Exchange Standard showed that the sale of Council Bills should not be limited to the amount of Home Charges alone. From 1905 the Secretary of State for India began to sell Council Bills to meet the demands of trade by a standing offer of bills within specie points. This system assumed considerable importance in the financial machinery of India, and the financing of India's export trade practically hinged upon the sale of Council Bills. It was in practice the only method by which additional currency could be supplied to the market whenever there was stringency. **Later development.**

In a normal year, with a favourable balance of trade, the rate of exchange could be prevented from rising beyond 1*s.* 4*d.* by selling as many Council Bills as necessary. When the exchange began to fall during the crisis of 1907-08, the system was modified to suit the new station. The Government of India took to the selling of 'Reverse Council Bills', drawn on the Secretary of State, at the official rate of exchange. These were cashed out of the Gold Standard Reserve in London, and they served to keep the rate of exchange stable. **Reverse Councils.**

During the First World War, the sale of Council Bills was the subject of much adverse criticism. The control of exchange was accompanied by secrecy and by the sale of Councils to 'approved parties'. **First World War and after.**

The rise in the price of silver disorganised the exchange market, and the rate had to be varied in accordance with the sterling price of silver. After September, 1920, the Government abandoned the attempt to regulate the rate of exchange.

The remittance operations of the Government always exerted an important influence upon the exchange rate. It was realised later on that the rate of exchange could be regulated far more efficiently from India than from London. This led **Later system.**

Continued from previous page.
India, he received funds in sterling in London, while the merchants obtained funds in rupees in India. Thus the system obviated the necessity for the double shipment of bullion between the two countries. 'Telegraphic Transfers' were sold at slightly higher rates to those merchants who wanted to avoid the delay of sixteen or seventeen days which the Council Bills took to reach India. **"Telegraphic Transfers."**

to a discontinuance of the sale of Council Bills, and to the adoption of the method of remittance by the purchase of sterling in the open market in India. The purchase was effected by public tender. Since 1934 the remittance business is being handled by the Reserve Bank of India.

The total amounts of currency in recent years are given below:

Volume of currency.

CURRENCY CIRCULATION (in lakhs of rupees):—

Year	Notes	Gold Coin and Bullion	Foreign Securities	Rupee Coin	Total
1938-39 ...	182,36	44,42	66,95	67,11	36,084
1948-49 ...	1,231,84	42,49	907,47	42,96	2,22,476
1952-53 ...	1,114,84	40,02	564,40	80,22	1,79,948
1953-54 ...	1,133,95	40,02	594,02	92,83	1,86,082
1954-55 ...	1,197,05	40,02	648,90	102,25	1,98,822
1955-56 ...	1,339,39	40,02	656,52	106,88	2,14,281
August, 1956	1,431,62	40,02	606,68	115,26	2,19,358

CHAPTER XII

EXCHANGE—(*Concluded*)

CREDIT

CREDIT is an indispensable factor in business. In the towns there are Indian bankers or *shroffs* who generally do banking business on a small scale. They finance nearly the whole of the internal trade of India, but they rarely, if ever, discount foreign paper and never purchase foreign or sterling bills. They do, sometimes, lend money on Government paper or similar securities, but the bulk of their business consists in the discounting of traders' *hundis* and in advances to cultivators. In the villages, as we have seen, the *mahajan* lends money to the agriculturists and other people in the neighbourhood. The petty *mahajan* knows the affairs of his constituents intimately, and the possession of this local knowledge gives him a great advantage over a big banking concern. Loans are taken by means of hand-notes (*khuts*) or by the pawning of jewellery, or, as is sometimes the case, by mortgages of property. The aggregate of the transactions of the *mahajan* and *shroffs* amounts to an enormous sum.

The indigenous system.

In no advanced country in the world are banking facilities so inadequate as in this country. India, with a population of over 356 millions, has only 4,839 banking offices.[1] For India as a whole there is one banking office on the average for every 74,656 of the population.

Inadequacy of banks.

There is a greater variety in the Indian banking system than is to be found in most other countries. At the apex is the Reserve Bank of India, established in 1935, which is the Central Bank of the country, having a monopoly of the Note Issue. Next comes the State Bank which was constituted in 1920, as the Imperial Bank of India.[2] It was, till 1935, a quasi-Central Bank, and it, by virtue of its predominance and special position,

The banking system.

[1] The figure relates to the year 1952. *Statistical Tables Relating to Banks in India*, 1952.

[2] The Presidency Bank of Bengal was established in 1806, that of Bombay in 1840, and the Bank of Madras in 1843. They were originally semi-Government institutions. At one time they enjoyed the privilege

The Presidency Banks.

was a class by itself until 1955, when it was converted into the State Bank of India. Then there are the Exchange Banks, all of which are foreign concerns, engaged principally in financing the external trade of the country. The Indian Joint-Stock Banks, the proper development of which constitutes the chief problem in Indian banking, form still another class.

The Reserve Bank:

The establishment of the Reserve Bank marked the culmination of a long period of development. In 1935, it was started as a Shareholders' Bank, but in 1948 it was nationalised and became the Central Bank of the country. It has now the power to control not only the scheduled banks but also the non-scheduled banks. The Reserve Bank was expected to take advantage of the experience and of the large organisation of the Imperial Bank, and, accordingly, it entered into an agreement with the latter under conditions specified in the Act.

Imperial Bank, the agent of the Reserve Bank.

Along with the demand for nationalising the Reserve Bank, there was an insistent demand for the nationalisation of the Imperial Bank of India. But the Government of India did not at that time comply with the demand and the question was postponed.

Exchange Banks.

Next in importance to the Imperial Bank of India are the Exchange Banks, which are concerned mainly with the large operations of commerce, and one of the most important of their functions is to finance the export trade. They buy and sell bills of exchange in the Indian as well as in the foreign markets. Some of them have offices in different parts of the world. The shareholders of these banks are mostly Europeans, but Indians deposit their moneys with them, on which they get interest. The most important of such banks are the Chartered Bank, the National Bank of India, the Mercantile Bank, Lloyds Bank, the National Bank of South Africa, and the Eastern Bank. Some of the other larger Asiatic banking institutions also, such as the Hongkong and Shanghai Corporation, the Yokohama Specie Bank, the Sumitomo Bank, the International Banking Corporation and the Bank of China, Bank of New York, Dutch Banks do some amount of Indian business.

Continued from previous page.
of issuing bank-notes, which privilege was withdrawn by the Act of 1861. The Imperial Bank was formed by the amalgamation of the Presidency Banks.

The Indian Joint-Stock Banks do their business with relatively small amounts of capital. Most of them are managed by Indians. There has been a considerable increase in their number in recent years, and the total amount of their business has also expanded a great deal. At present their business is mainly confined to the financing of the internal trade of the country ; but it is expected that they will extend their operations to foreign exchange, and thus take advantage of foreign capital. The position of Indian Joint-Stock Banks was affected to a great extent by the amendment of the Indian Companies Act, which came into operation in January, 1937. The Act attempted to define banking, and to segregate banking from other commercial operations. It recognised the special status of the 'scheduled banks' and exempted them from certain measures of control imposed under this Act on other banks, on the ground that the scheduled banks might be left to the general supervision of the Reserve Bank. The 'scheduled banks' are so called because of the fact that the Reserve Bank Act of 1934 contained a schedule giving the names of the banks which were directed to maintain balances with the Reserve Bank. This schedule gave a list of 50 banks, and the Act empowered the Governor-General to include in the schedule any other bank having a paid-up capital and reserves of at least 5 lakhs of rupees in the aggregate. Any scheduled bank, the aggregate value of whose paid-up capital and reserves falls below 5 lakhs of rupees, is liable to be excluded from the schedule. The number of scheduled banks rose from 50 to 54 during the year 1937-38. There were 89 scheduled banks in 1955-56.

Indian Joint-Stock Banks.

Recent changes.

Scheduled Banks.

Each scheduled bank is required by the Reserve Bank Act to maintain with the Reserve Bank a balance amounting to at least 5 per cent. of its demand liabilities, and 2 per cent. of its time liabilities (*i.e.,* fixed deposits) in India. It has to submit a weekly return to the Reserve Bank, giving a clear statement of its affairs in a prescribed manner. Failure to submit the weekly return entails the payment of a penalty of 100 rupees for each day during which the failure continues. Further, should the balances of a scheduled bank kept with the Reserve Bank fall below the prescribed minimum, a heavy fine is to

Provisions relating to them.

be paid by it to the Reserve Bank in the form of penal interest on the amount of the deficiency.

Bank failures.

These regulations were considered necessary in order to ensure the solvency of the scheduled banks, because a number of bank failures in the past had severely checked the growth of Indian banking. In 1935, there were 51 cases of bank failure in the whole of India.[1] In 1949, a number of banks failed in Bengal. There have been a few cases of bank failure in recent years also in the different parts of India.

Necessity for growth of credit.

While adequate steps should be taken to guard against bank failures in future, it would be a misfortune if these failures should produce the effect of permanently hindering the growth of Indian banking. "Credit," as the American jurist-statesman, Daniel Webster, put it, "has done more, a thousand times, to enrich nations than all the mines of the world"; and, in the words of the eminent economist, McLeod, "it is by the cautious and gradual extension of Banking, and the development of Banking habits among the people that the future progress of India in wealth and prosperity is to be promoted."

Progress of Bank deposits.

There has been a progressive increase in bank deposits since 1900. The total deposits of different categories of banks in India in 1955-56 stood as follows: the Reserve Bank of India, Rs. 15,204 lakhs; all Commercial Banks, Rs. 1,06,264 lakhs; Scheduled Banks, Rs. 80,895 lakhs; the Exchange Banks, 18,770 lakhs and the non-Scheduled Banks, Rs. 6,601 lakhs.

The Government itself a great banker.

The Government itself is also a great banker. It holds in deposit moneys from the people in its Post Offices and pays

[1] During the last half century, the number of bank failures in the country was quite large. The crash came with the failure of the People's Bank in the Punjab, with its 72 branches in the different parts of the country and its crore and a quarter of deposits. Next failed the Credit Bank of India, and the Indian Specie Bank too—the only purely Indian Bank which had a branch in London—was unable to weather the storm. These were followed by thirteen other failures. Various causes contributed to bring about the crisis. The management of some of the banks was in the hands of persons who had very little experience of this kind of business, and they often embarked on speculative ventures of a dangerous character. In some cases the banks had high-sounding titles, but their paid-up capital was very small; they lent money on insufficient security; and the proportion of their cash reserves to their liabilities was exceedingly small. A further cause was the lack of support from well-established banks at a time of stress. The failures brought misery to large numbers of poor men and women of India; and future bankers will do well to learn from the experience of the past and avoid mistakes such as those which led to the crises.

interest on them. The total amount of deposits in the Post Office Savings Banks was on 31st March, 1955, over 147 crores of rupees. No special balances are held by the Government against these deposits, they being regarded as part of the Unfunded Debt. Besides, the Government issue Postal Cash Certificates, National Savings Certificates, Ten Year Savings Deposit Certificates and Ten Year National Plan Loan Certificates to provide facilities to the small investors. The Government also advances loans to cultivators for agricultural improvements and the purchase of land, cattle, etc. This is done on a large scale in times of famine and scarcity.

The Co-operative Credit Societies are institutions similar in object, though not in scope and organisation, to the Agricultural Banks of Europe.

Co-operative Credit Societies.

As a result of the establishment of a large number of new banking companies and the extension of branches by existing companies, there has been a considerable improvement in banking facilities in India during and after World War II. The development of banking facilities was mainly confined to the larger towns and cities.

In 1955, the total number of offices of the different classes of banks were: the State Bank, 454; Exchange Banks, 65; other Indian Scheduled banks, 2,307; non-scheduled banks, 1,169; co-operative banks, 1,113; total 5,140. It is thus evident how inadequately developed are banking facilities in India, with the result that the "financial power of India is insufficiently mobilised".

Banker's business.

A banker utilises his capital and a considerable proportion of his deposits in making advances. Such advances are generally made either by means of an overdraft or a definite loan against security, personal or otherwise, or on a cash credit bond providing for a fluctuating balance within a certain definite amount. Besides, banks invest in the discounting of commercial bills and in loans to stockbrokers and others against Negotiable Securities. Loans made on mortgage or against securities form the chief business of the Indian Joint-Stock Banks. Loans against the personal credit of the borrower only form one of the important classes of advances given by commercial banks in Western countries, but they are relatively unimportant in India.

Credit instruments

The instruments of credit in India are governed by the Negotiable Instruments Act. A Negotiable Instrument means a promissory note, bill of exchange, or cheque. A promissory note is a written unconditional promise made by one person to pay another a certain sum of money. A bill of exchange is defined as an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to, or to the order of, a certain person or to the bearer of the instrument. A cheque is a bill of exchange drawn on a banker and payable on demand. Negotiable instruments may be either inland or foreign. Those drawn or made in India and made payable to, or drawn upon, any person resident therein, are called inland instruments; those not falling within this definition are foreign instruments. Besides these, some other instruments, passing from hand to hand by delivery, have by custom acquired a quasi-negotiable character.

Bank rate

The Bank rate is the standard rate at which the Reserve Bank is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under the Reserve Bank Act. At present the Reserve Bank of India rate is 3½ per cent. The State Bank *hundi* rate is 4½ per cent. The bank rate varies from day to day and from month to month. During some months of the year the rate is very high in India —sometimes rising to over 8 per cent. Such high rate, however, prevails only for a short period, namely, the winter months, when the exporters need money for purchasing agricultural products. The bank rate in India does not exercise the same influence over the other rates in the money-market as in other advanced countries. The more important of these rates are the call money rate charged for very short-period loans, repayable at the option of either the lender or the borrower, the deposit rate charged by the joint-stock banks, and the bazaar rate charged by indigenous bankers for small traders' bills.

Banking Companies Act, 1949.

The Banking Companies Act, 1949, attempts to consolidate, with certain modifications, the relevant provisions concerning banking companies contained in the Indian Companies Act, 1913, and the various subsequent measures. The Act regulates all banking companies and covers all the States of India.

Co-operative banks have been excluded from the scope of the Act.

All banks coming within the purview of the Act are licensed. Licences are issued by the Reserve Bank after proper enquiry. The Act lays down minimum requirements relating to the paid-up capital and the reserves of a bank incorporated in India. Scheduled and non-scheduled banks are required to keep minimum reserves with the Reserve Bank (2 per cent. against time liabilities and 5 per cent. against demand liabilities). The Act prohibits inter-locking directorates among banking companies and the employment of managing agents. It also prohibits the granting of unsecured loans or advances to any of the directors or to any firm in which the directors are interested.

Provisions of the Act.

CHAPTER XIII

CONSUMPTION

Relation between consumption and production.

CONSUMPTION is the aim and object of production. We cannot think of the production of wealth without having in mind the end for which it is produced. The connection between production and consumption is thus very intimate. This intimate relation is also perceived in another way. Production is made possible only by consumption, on which, therefore, the quality and quantity of production must necessarily depend to a large extent. On the other hand, without production there can be no consumption.

Standard of living varies in degree,

Consumption of commodities is determined by the standard of life which a particular person fixes for himself at any given period of time, or rather which is fixed for him by his circumstances. This standard of life differs not only among individuals, but from class to class, and according to differences of occupation. In countries like England and the United States, these differences are very great; but so far as the elementary needs are concerned, the standard is very much the same for all classes. In India, on the other hand, considerable differences are found in regard to even the most elementary needs of life.

and in kind.

The standard of living, again, differs not only in degree, but in kind. The consumption of some commodities, for instance, may give physical comfort, but may be detrimental to moral wellbeing. It would be taking a narrow view of Economics to confine the standard within the limits of physical needs. From the broader standpoint, it would be more desirable to take the term to include higher ends as well. We may follow Marshall, who says: "Let us take the term, the 'Standard of Life' to mean the Standard of Activities and Wants. Thus an increase in the Standard of Life implies an increase of intelligence, energy, and self-respect; leading to more care and judgment in expenditure, and an avoidance of food and drink that gratify the appetite, but effect no strength, and of ways of living that are unwholesome, physically and morally."

According to this view, the most expensive standard is not necessarily the highest, and India will not be any the better or happier for getting a larger amount of what many people wrongly term 'refinement'. To judge whether a standard is high or low, we have to enquire whether or not it conduces to the welfare, moral and material, of the persons who have adopted it. The best consumption of wealth is that which results in the greatest benefit to individuals and to society. It is often said that the customs, the social institutions, and the religious and moral ideals of the people of India favour a standard of living which is comparatively low. This is true in a sense; but it is not in its real meaning a thing to be regretted. We must, however, distinguish between the standard of life which is the aim of religious teachings and moral precepts, and that which results from economic circumstances beyond the control of these teachings and precepts.

The most expensive standard not necessarily the best.

The Indian standard.

In recent years, many artificial wants have made themselves felt in India. It is often held that increase of wants leads to an increase of activity. This, however, is true only of the first stages of civilisation. After a certain point, a multiplication of artificial wants is not conducive to the leading of a good life. Economics is based, it is true, on the satisfaction of wants, but that does not imply that man should go on creating wants so that he may have the pleasure of satisfying them. Certain wants present themselves to man, and they must be satisfied; but ever-increasing wants and ever-increasing effort to satisfy such wants do not conduce to the well-being of society. The real test of civilisation is not the growth of wants, but the growth of healthy activities.

Wants and activities.

Economists divide articles of consumption into necessaries and luxuries. Necessaries, again, are subdivided into necessaries for existence and those for efficiency. There are, besides, certain articles which have come to be regarded as conventional necessaries. Although there are no means by which each of these classes can be rigidly marked off from the others, yet this classification is useful and convenient. It must be remembered, however, that articles which are necessaries to some people may be luxuries to others.

Classification of articles of consumption.

Reliable statistics of consumption in India are not available. The average consumption per head of the taxable commodities

Statistics of consumption.

may be ascertained by dividing the total of such commodities by the number of the population. But as these commodities are not always the most important, they do not throw much light on the economic condition of the people. Besides, a computation of the *per capita* consumption, however useful for comparison with other countries, would not give us any information as to the condition of the different sections of society in India. Figures relating to consumption in some towns and villages are sometimes given by the Government and some private agencies, but no systematic and thorough study of consumption on the lines of work of Charles Booth, Seebohm Rowntree and others has as yet been attempted in India.

The first necessaries of life: Food.

In order that we may make progress towards a higher life, the physical needs—the primary wants, as they are called—must be satisfied first. The primary wants are those of food, clothing, and shelter. We have already seen that the average income in India is very small; consequently, a large majority of the people are hardly supplied with the barest necessaries.

Views of eminent officials.

Sir William Hunter observed many years ago that more than one-sixth of the people went through life on insufficient food. Sir Guy Fleetwood Wilson, at one time Finance Member of the Government of India, said: "A large proportion of the people are poor, an appreciable proportion very poor." As a matter of fact, a considerable proportion of the people is below what is known as the 'primary poverty' line, and large numbers of persons hardly get one full meal a day. It is doubtful if all persons belonging even to the 'middle class' get a sufficient quantity of nutritious diet.

Clothing.

Clothing is an item of less importance in India than in Europe and America. In summer, a very small amount of clothing suffices; but in winter, warm clothing becomes essential, especially in Northern India, where the cold is severe. But the poor people can rarely afford to supply themselves with warm clothing, and deaths from cold are often reported. The middle-class people perhaps spend more on their clothing than they ought to, for in order to find money for their clothes they have to curtail their expenditure in other and more useful directions. The richer classes can afford to indulge in a little luxury in the matter of dress, but they represent only a

microscopic minority of the total population. As for house-room, the great bulk of the people live in mud huts with thatched roofs; and not even all members of the middle class succeed in finding accommodation which would be considered decent in other advanced countries.[1]

House-room.

Effect of inadequate consumption on production.

The primary wants are necessaries for existence. An insufficient supply of these may just enable a person to keep body and soul together, but is sure to be detrimental to his physical and moral well-being. The effect of inadequate consumption on production is immense. Ill-fed, ill-clad, ill-lodged, the mass of the people of India leads a dull and dreary existence. The want of proper sustenance impairs the vigour and vitality of the people, who fall easy victims to the attacks of various kinds of disease. Having no reserve to fall back upon in difficult times, they suffer untold misery whenever there is a slight disturbing cause, such as a drought, an epidemic or a failure of the crops. The children of weak and unhealthy parents become weaklings, and, being themselves ill-fed and ill-bred, swell the numbers of the worthless members of society. Thus the physical deterioration of the people goes on increasing from generation to generation; and with the progress of physical degeneration, their moral stamina also tends to become less and less strong. Consequently, the efficiency of labour as a factor in production has a progressively rapid tendency to diminish.[2]

[1] MIDDLE CLASS COST OF LIVING INDEX, CALCUTTA.
Base: August, 1939—100.

	Food	Clothing	Fuel-Light	House-rent	Miscellaneous	All combined
1952	383·4	503·9	337·9	116·9	264·4	340·5
August—1953	404·4	495·9	339·9	116·9	269·2	352·9

MENIAL CLASS COST OF LIVING INDEX, CALLUTTA.

	Food	Clothing	Fuel-Light	House-rent	Miscellaneous	All combined
1952	380·2	504·2	336·8	116·9	283·8	352·7
August—1953	400·2	496·2	337·7	116·9	288·5	367·2

Monthly Statistical Digest, Bengal, September, 1953.

[2] The consumption of food per head per year of the population in India was estimated as follows (in lbs.):

1939-40	1940-41	1941-42	1945-46	1946-47	1947-48
388	366	348	340	358	357

A sample survey of International Standards in Lucknow city carried out by the Lucknow University, tends to show that there is considerable

The stinting of necessaries is always economically wasteful; and there can be little doubt that production in India can be greatly increased by increasing the consumption of the people. When, however, we advocate an increase in consumption, we mean increased consumption of those goods which conduce to the health and vigour of the people. In food, nutrition should be the main purpose, and the desire to prefer pleasant to wholesome food should be discouraged. Indulgence in drink[1] and narcotics means not only the waste of money spent on them, but an injury to body and mind. In matters of dress, furniture and dwellings, the objects of attainment should be health, happiness, and morality—not pomp and luxury. Economically speaking, luxury is unproductive, and the demand for luxuries misdirects capital and labour, and leads to waste. In the words of a well-known economist, the consumption of luxuries, far from augmenting our capacity, makes us "at once less wealthy, less healthy, and less wise."[2]

Increased consumption necessary, but only of wholesome articles.

Since the beginning of World War II the cost of living of the working class has greatly increased, but their earnings have not increased proportionately. The following figures give an idea of the cost of living of the working class in 1955.[3]

Cost of living.

Continued from previous page.
under-feeding in lower income groups, with an average consumption of between 2,161 and 2,295 calories per day per adult male; the middle and upper classes consume, on an average, about 2,800 calories.

[1] Discussing the subject of drink, the Labour Commission in their Report observes that it is "a feature of the majority of industrial areas and has created considerable havoc in some of them." The reduction of drinking, it says, should not only effect improvements "in the health, efficiency and standard of living of the workers", but will also increase the taxable capacity of the people. The *Report* also notes that by ensuring for the worker better surroundings, less fatigue, and increassed facilities for amusement and recreation, considerable reduction in the consumption of drink may be expected.

[2] Sidney Webb, Preface to R. Jones's *Nature and First Principles of Taxation.*

[3] TABLE A

Base: August, 1939 = 100.

	1948-49	1951-52	1952-53	January, '54
Bombay ...	297	314	328	346
Ahmedabad ...	341	352	363	368
Sholapur ...	415	434	425	427
Calcutta ...	345	369	348	325
Kanpur ...	498	449	447	442
Madras ...	320	343	340	360
Ernakulam ...	362	388	387	395
Nagpur ...	379	391	379	377

CONSUMER PRICE INDEX-NUMBER

WORKING CLASS (AUG. 1939 = 100).

Calcutta	Delhi	Bombay	Madras	Kanpur
330	339	324	321	371

Of the physical necessaries proper housing comes next to food and cloth. In this respect also the existing conditions are deplorable. The pattern of life in the *bustee* is more or less the same everywhere throughout the country. The difference is in the details, not in the essentials. As a general picture we can *do* no better than quote the description given by the Royal Commission on Indian Labour, 1931, page 271:

Necessaries of a higher kind:

". . . . houses are built close together, each touching each and frequently back to back in order to make use of all the available space. Indeed space is so valuable that in place of streets and roads, narrow winding lanes provide the only approach to the houses. Neglect of sanitation is often evidenced by heaps of rotting garbage and pools of sewage, whilst the absence of latrines enhances the general pollution of air and soil. Houses, many without plinths, windows and adequate ventilation, usually consist of a single room, the only opening being a door often too low to enter without stooping. In order to secure some privacy old kerosene tins and gunny bags are used to form screens which further restrict the entrance of light and air. In dwellings such as these human beings are born, sleep and eat, live and die."

But there are necessaries of a higher kind which are of as much importance as those we have been discussing, and the

education, sanitation, leisure, recreation.

Continued from previous page.

TABLE B

Base: 1944—100.

		1948-49	1951-52	1952-53	January, '54
Delhi	...	133	143	142	139
Ajmer	...	161	179	172	155
Jharia	...	154	182	171	143
Jamshedpur	...	137	160	153	142
Gauhati	...	124	145	140	127
Cuttack	...	136	183	155	149
Jabbalpur	...	151	164	148	144
Ludhiana	...	171	164	148	149
All India	...	134	143	142	142

Source: Labour Bureau, Government of India.

failure to provide for which is the main cause of the present backward condition of the country. These needs are for education, sanitation, leisure, and recreation. The economic value of education is too well known to be disputed. By increasing the intelligence of the labourer, education adds greatly to his productive efficiency. Sanitation is a question of vital importance, particularly in a country like India. Adequate rest after work is necessary in order to prepare the mind and body for further work. Recreation claims the attention of everybody as it exercises the greatest influence on happiness and morality. As a celebrated economist observes: "A people may be dulled because of too little, enervated because of too much, degraded because of ill-chosen, amusement."[1]

Considerable increase of income needed.

In order to provide for the satisfaction of all these needs, a considerable amount of income is required. The present income of the bulk of the people, as is evident, is insufficient for an adequate supply of even the primary necessaries of life. When an augmentation of income commences, the increments will, in the initial stages, go to make up the deficiency on the score of the primary wants, and the later increments are likely to be devoted to the satisfaction of the higher needs.

[1] Devas, *Groundwork of Economics*.

CHAPTER XIV

PUBLIC FINANCE

1. A BRIEF HISTORICAL REVIEW

In the early days of the East India Company, the different provinces of Bengal, Bombay and Madras were autonomous and their finances were held separate, but in 1833 administrative centralisation took place and from that date, the whole of the revenue of India was treated as a single fund, collected into a central account and thence doled out piece-meal to the various provinces according to the requirements of each. The Provincial Governments collected and ultimately disbursed a large proportion of the revenues, but as they gained nothing by enhanced efficiency, the development of public revenues did not proceed fast. Besides, as they had no motive for economy, the system led to much extravagance. Moreover, there were constant disputes between the Central and Provincial Governments. The First step was taken in 1871 to remedy this unsatisfactory state of things. Certain departments were made over to the Provincial Governments, and they were credited with departmental receipts together with a lump sum of money. The second step towards a system of provincial finance was taken in 1877, when some heads of revenue were made over to the provinces instead of lump sums of money and the Provincial Governments were given power to meet deficits by provincial taxation. From 1882 to 1904, there was a system of Provincial Contracts or Settlements which were revised every five years. The system proved to be a fertile source of friction, improvidence and waste. In 1904, Quasi-Permanent settlements were made with all the provinces. In 1911, the financial settlement with most of the major provinces were made permanent; succour to a distressed province was to be given only in case of a widespread famine. On the other hand, the Central Government would call upon the provinces for aid in case of a war or in a grave financial crisis. Subject to certain contigencies, this settlement was made a fixed, rigid and permanent one.

History.

Direct Administration by Supreme Government.

Provincial Contracts.

Quasi-Permanent settlements.

Permanent settlement.

M-C Reforms.

With the introduction of the Montagu-Chelmsford Reforms, this state of affairs passed away. There was a complete separation between the finances of the Central Government and those of the Provincial Governments. The system of divided heads of revenue was altogether done away with. Land revenue, irrigation, excise and stamps were wholly provincialised. The provinces were also to get a very small share of the growth of the income-tax revenue. As under this arrangement the Government of India's resources were somewhat curtailed, it was arranged that from 1921-22, the Provincial Governments should contribute Rs. 983 lakhs to the Government of India. This, however, was regarded as a transitional measure. It was also decided that as the finances of the Central Government would improve, the provincial contributions were to be reduced. From 1927-28 no provincial contributions were levied.

Powers of taxation and borrowing.

As an integral part of the scheme of financial autonomy, some independent power of taxation was also conferred upon the provinces. They were also given the right to borrow, under certain conditions, on the security of their own revenues. Unfortunately, from the date of separation of provincial from central finance, both the Central Government and the Provincial Governments had to pass through a period of acute financial distress. A large portion of the provincial revenues was annually swallowed by the reserved departments. Very little was left for the transferred departments which were responsible for meeting the growing demands of the nation-building subjects, e.g., sanitation, education, industry and agriculture. There was dissatisfaction in all the provinces on account of the Meston Award. This handicap seriously endangered the success of the Reforms, inasmuch as the ministers could not effect those improvements in the nation-building departments which were insistently demanded by public opinion. Retrenchment Committees were appointed in several provinces as well as at the Centre.

Financial distress in the Provinces.

Criticism.

The system of Provincial Finance introduced under the Montagu-Chelmsford Reforms was subjected to severe criticism both in and outside the legislatures. The chief grounds of objection were as follows: Central and Provincial sources of revenue were demarcated on the wrong principle of a

clean-cut; although the provinces required ever-increasing revenues to develop their nation-building activities, the more elastic sources of revenue were allotted to the Central Government; the distribution of the resources among the provinces was not made on an equitable basis, some provinces getting far larger resources than others relatively to their respective populations; the burden of provincial taxation fell mainly upon the agricultural classes, while the industrial classes contributed mostly to the Central Exchequer.

Lord Layton's Report.

No heed was paid at the time to these criticisms. The whole subject was investigated by Lord Layton, the Financial Assessor to the Simon Commission. In the Report submitted by him, he fully endorsed the substance of the criticisms, especially emphasised the financial difficulties of Bengal, whose position had become almost hopeless. He recommended the re-allocation of resources as between the Central Government and the Provincial Government, and suggested the imposition of a number of fresh taxes.

Peel Committee.

Federal Finance Committee.

Government of India Act, 1935.

This question was considered in connection with the proposals for constitutional changes which were discussed at the Round Table Conferences (1931-33) in London. A Committee presided over by Lord Peel was appointed at the First Round Table Conference to investigate the question. This matter was further considered by the Federal Finance Committee which reported in 1932. The recommendations made by the Committee were taken into consideration by the British Government, and some important provisions were included in the Government of India Act, 1935.

This Act provided for a scheme of federal finance. Certain heads of revenue were made entirely federal, others were made entirely provincial. A few other heads of revenue were made partly federal and partly provincial. A fourth category of taxes was to be administered by the Federal Government, but the proceeds were to be transferred to the provinces, subject to surcharges for federal purposes in cases of emergency. The Act also provided for grants-in-aid to certain provinces out of the federal revenues.

Sir Otto Niemeyer's Report.

Sir Otto Niemeyer was appointed by the Secretary of State to recommend the proper distribution of the proceeds of a share of the income-tax and of the export duty on jute to the

provinces, as also the subventions to be paid to the different provinces. His recommendations were adopted by an order in Council, which provided as follows: Fifty per cent. of the proceeds of the income-tax should be assigned to the provinces and to the States, and the total sum to be distributed shall be apportioned at the following percentages: Madras, 15; Bombay, 20; Bengal, 20; the United Provinces, 15; the Punjab, 8; Bihar, 10; the Central Provinces and Berar, 5; Assam, 2; the North-West Frontier Province, 1; Orissa, 2; Sind, 2. But, out of the total amount falling to be distributed among the provinces, the Central Government might retain for a first period of 5 years and for a second period of 5 years certain portions of the divisible pool of income-tax. The Niemeyer Award also contained a provision that 62½ per cent. of the net proceeds of the jute export duty should be assigned to the jute growing provinces. It further provided for annual grants-in-aid out of the federal revenues. Besides, in accordance with the recommendation of Sir Otto Niemeyer, the debts due from the provinces to the centre were consolidated or cancelled, either wholly or in part. The cash balances held by the Central Government were decentralised. The Provincial Loans Fund was, accordingly, wound up as from 1st April, 1937.

Provincial debts cancelled or reduced.

Comment.

This financial arrangement substantially improved the financial positions of the provinces. Some of the provinces, however, were not completely free from difficulties. Bengal was not fully satisfied with the arrangement and urged that, if justice was to be done to her, the whole of the proceeds of the jute export duty and a considerably higher proportion than 20 per cent. of the provincial share of the income-tax proceeds be made over to her.

Bengal's grievance.

War finance.

During the initial stages of the war the finances of the Central Government, paradoxically enough, showed small surpluses. Expenditure, of course, was rising from year to year. But the revenues also were expanding, due to new taxation, upgrading of old tax rates, borrowing and inflation. It should be noticed that the total note-issue which stood at Rs. 252·21 crores in March 1941, swelled to a pretty large figure in 1942.

The first phase of the war, so far as Indian finances were

concerned, may be said to have ended in 1941-42. It was during the second phase of the war-time public finance—the period from 1942-43 to 1945-46 that the budgetary policy was dominated by the question of how to exploit most effectively both taxation and borrowing for the purpose of financing the mounting Central Government expenditure, particularly expenditure entailed by the vastly expanded scale of operations of a global war and by India's increasing participation, both directly as a country at war, and indirectly as the base of supplies for the Allied Nations. Expenditure increased over three times between 1941-42 and 1945-46. Defence expenditure rose from Rs. 49·54 crores in 1939-40 to Rs. 458·32 crores in the peak year of 1944-45. The total tax revenue which was Rs. 76·35 crores in 1938-39 rose to Rs. 311·36 crores in 1945-46. In other words, the tax-revenue more than quadrupled itself during the war years. This increase in tax-revenue was no mean performance, but in the race with expenditure it was obviously losing ground. There followed, therefore, a series of progressively increasing budget deficits.

Methods adopted for financing war expenditure in Germany, U.S. & U.K.

Taxation, borrowing and a resort to the printing press were the three methods employed by the belligerent countries for collecting funds required for financing the war. By rationing and rigid price control expenditure on private consumption was vigorously kept down to the minimum level. Private investment was also controlled by the Governments, capital issues being allowed only for approved purposes. Avenues of private expenditure being thus more or less closed, the Governments resorted to taxation to the utmost extent possible to mop up the additional funds accumulated in the hands of certain classes of the people through the huge war expenditure of the Governments. Borrowing was also employed for absorbing any surplus purchasing power left in the hands of the public, while a cheap money policy was pursued to keep down the cost of borrowing. A country-wide campaign for small savings was carried on in order to freeze the increased income in the hands of the wage-earners. This was the technique employed by Germany, U. S. and U. K. to finance their war efforts.

Unintelligent following in India.

India followed the same technique, but in a crude and unintelligent manner. As the scope of direct taxation was

rapidly exhausted, indirect taxation was resorted to in India. The yield of customs shrank with the shrinkage of world trade, and increasing reliance was placed upon the central excises thus adversely affecting the cost of living, particularly of the poor and middle classes. The Railway fares and freights as well as postal, telegraph and telephone rates were also enhanced, but revenue tended to lag behind expenditure and borrowing was resorted to. Even this was not found sufficient and recourse to further inflation was found necessary. It is worthy of note that while the inflationary forces were held in severe check in U.S. and U.K., in India inflation grew from more to still more and inflicted immense suffering on the people, one of its most mischievous consequences being the disastrous Bengal Famine. Among the other defects of this policy may be mentioned the fact that indirect taxation was levied indiscriminately without the compensating feature of giving subsidies in respect of essential articles as in Britain. Indirect taxes in India had the effect of raising prices thus enhancing the persistent inflationary pressure.

Increase in postal, telegraph, telephone rates, railway fares and freights.

Inflation.

During the post-war period the Government of India (Distribution of Revenues) Order, 1948, made a fresh allocation of the provincial pool of the Income tax. This was an interim arrangement, under which the share of West Bengal was drastically curtailed, while the share of East Punjab was also substantially reduced. The shares of some of the other provinces were increased.

Share of States income-tax.

Re-allocation after Partition.

Criticism.

The argument the Government of India put forward in support of its decision to reduce the share of West Bengal and East Punjab was most extraordinary. The West Bengal Government showed convincingly in a Memorandum on the subject how unsound the Government of India's argument was in so far as the reduction of West Bengal's share from 20 per cent. to 12 per cent. was concerned. The Government of West Bengal was on firm ground when it contended that it would be most unfair to give to West Bengal anything less than what was given to Bombay.[1] And since Bengal's share under the Niemeyer Award was determined mainly on the collection basis, equity demanded that the share of West Bengal could not be less than 19·75 per cent. of the Provincial

[1] Memorandum by Government of West Bengal, March, 1948.

pool, in conformity with the underlying principles of the Niemeyer Award.

Expert Committee's opinion.

An Expert Committee, set up by the Central Government, recommended that the provincial share of the income-tax should be raised to 60 per cent. and that the basis for distribution should be modified. But the Constituent Assembly did not accept the Expert Committee's recommendations and the decision was that the then existing financial arrangement should not be disturbed until the Finance Commission to be appointed within two years would review the situation. But some provinces were so critical of the *interim* allocations made by the Government of India in 1948 that Sri C. D. Deshmukh was appointed to give a fresh Award on the distribution of the divisible pool of income-tax. Sri Deshmukh announced his Award[1] in 1950, which was accepted by the Government of India. He did not make any re-allocation *de novo*. West Bengal, smarting under a sense of injustice, had to endure the arrangement based on the Deshmukh Award under protest.

Deshmukh Award.

The next head of re-allocation was the jute duty. Before Partition, the Government of India used to appropriate 37½ per cent. of the net proceeds of the export duty on jute and jute goods and the remaining 62½ per cent. was distributed among the four jute-growing provinces of Bengal, Bihar, Orissa and Assam. The Government of India (Distribution of Revenue) Order, dated the 17th March 1948, reduced the proportion of the net proceeds to be assigned to the jute-growing provinces from 62½ per cent. to 20 per cent. The jute-growing provinces, West Bengal in particular, strongly protested against this decision. As a sop, additional *ad hoc* grants were made to West Bengal of Rs. 40 lakhs in 1947-48 and of Rs. 50 lakhs each year in 1948-49 and 1949-50. This arrangement did not satisfy West Bengal and the Government of this State made a further representation for the reconsideration of the matter.

Reduction in Provincial share of Jute duty.

The New Constitution did not provide for assignment of jute export duty to the States, but provided for grants in lieu

[1] According to this Award, the percentage for the different States were as follows: Bombay, 21; Madras, 17·5; West Bengal, 13·5; Orissa, 3; U.P., 18; C.P. & Berar, 6; East Punjab, 5·5; Bihar, 12·5; Assam, 3. The Award of Sri Deshmukh failed to meet the criticisms urged by the States.

of such assignments to be made out of Central Revenues to the four States concerned for a period of 10 years.

Sri C. D. Deshmukh's Award was that, until the Finance Commission proposed any revision, the shares of the States in the grants-in-aid would be: West Bengal, Rs. 105 lakhs; Assam, Rs. 40 lakhs; Bihar, Rs. 35 lakhs; and Orissa, Rs. 5 lakhs. During the interim period the States were paid grants according to this Award.

Integration of Finance of the former Indian States.

After the achievement of Independence the former Indian States became parts of the Indian Union. This scheme of integration, which became effective from the 1st April, 1950, placed the States and Union of States in the same position as the former Provinces *vis-a-vis* the Centre.

Recommendations of the Krishnamachari Committee.

Following the recommendations of the V. T. Krishnamachari Committee, for a transitional period of ten years, the Centre agreed to make good, with certain adjustments, to the Part B States the differences between the actual federal revenue lost to them and the federal expenditure saved to them as a result of federal financial integration. This reimbursement was to be made in full for the first five years and on a diminishing scale for the next five years.

Part B States.

The Part B States (formerly known as Indian States) are now in the same position as the former Provinces (now called Part A States) in the matter of sharing divisible sources of revenue like income-tax, but any grant made to them to cover the federal revenue gap has been set off against this share. States which were left with a surplus as a result of integration were allowed to retain the surplus, but the Privy Purses of the former Rulers of these States were recovered from them to the extent of this surplus. It would be some time before the revenue gap of these States could be accurately determined. At the end of this period of ten years the whole matter would be subject to further review.

The problem of financial adjustments also naturally arose in the case of the former Indian Provinces in which a large number of Indian States, of various sizes and in varying stages of development, had been merged. The Krishnamachari Committee suggested that proper assistance should be given to the States in such cases. As regards the Part C States (formerly Chief Commissionerships), the problem did not arise

at all, as the Union Government was responsible for the federal as well as the State expenditure.

Merger of Part B States a great achievement.

The assimilation of the former Indian States with the financial framework of the rest of the country marked an important stage in the development of federal finance in the country. The problem of bringing the large number of Indian States into the common stream of the country's economic and financial life was successfully tackled.

2. FINANCE UNDER THE NEW CONSTITUTION

In the matter of division of financial resources between the Union Government and the State Governments the new Constitution of India follows closely the pattern of the Government of India Act, 1935, but some of the provisions have been deliberately kept indefinite in order to introduce an element of flexibility into the scheme.

Union List.

The Union List includes: (1) taxes on income other than agricultural incomes; (2) duties of customs including export duties; (3) duties of excise on tobacco and other goods manufactured or produced in India, except (*a*) alcoholic liquors for human consumption; (*b*) opium, Indian hemp and other narcotic drugs and narcotics, but including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (*b*) of this entry; (4) corporation tax; (5) taxes on the capital value of assets exclusive of agricultural land of individuals and companies, taxes on the capital of companies; (6) estate duty in respect of property other than agricultural land; (7) duties in respect of succession to property other than agricultural land; (8) terminal taxes on goods and passengers, carried by railway, sea or air, taxes on railway fares and freights; (9) taxes other than stamp duties on transactions in stock exchanges and future markets; (10) rates of stamp duty in respect of bills of exchange, cheques, promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts; and (11) taxes on the sale or purchase of newspapers and on advertisements published therein. The proceeds of some of these taxes are to be kept by the Union Government for its exclusive use and of some others are to be divided between the Centre and the

States, while the proceeds of the rest are to be assigned to the States.

State list.

The State List includes: (1) taxes on agriculture income; (2) duties in respect of succession to agricultural land; (3) estates duty in respect of agricultural land; (4) taxes on lands and buildings; (5) taxes on mineral rights subject to any limitations imposed by Parliament by law relating to mineral development: (6) duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India—(*a*) alcoholic liquors for human consumption, (*b*) opium, Indian hemp and other narcotic drugs and narcotics, but not including medicinal or toilet preparations containing alcohol or any substance included in (6) of this entry; (7) taxes on the entry of goods into a local area for consumption, use or sale therein; (8) taxes on the consumption or sale of electricity; (9) taxes on the sale or purchase of goods other than newspapers; (10) taxes on advertisements other than advertisements published in the newspapers; (11) taxes on goods and passengers carried by road or on inland waterways; (12) taxes on vehicles, whether mechanically propelled or not, suitable for use on roads including tram cars; (13) taxes on animals and boats; (14) tolls; (15) taxes on professions, trades, callings and employments; (16) capitation taxes; (17) taxes on luxuries, including taxes on entertainments, amusements, betting and gambling; and (18) rates of stamp duty in respect of documents other than those relating to transactions in stock exchange and future markets.

Duties levied by the Union but collected and appropriated by the States.

Article 268 of the Constitution provides that such stamp duties and such excise duties on medicinal and toilet preparations as are mentioned in the Union list shall be levied by the Centre but collected and appropriated by the States.

Taxes levied and collected by the Union but assigned to the States.

Article 269 provides that duties and taxes (*a*) in respect of succession to property other than agricultural land; (*b*) estate duty in respect of property other than agricultural land; (*c*) terminal taxes on goods or passengers carried by railway, sea or air; (*d*) taxes on railway fares and freights; (*e*) taxes other than stamp duties on transactions in stock exchanges and future markets; (*f*) taxes on the sale or purchase of

newspapers and on advertisements published therein, shall be levied and collected by the Government of India and shall be assigned to the States.

Under Article 270, taxes on income, other than agricultural income, shall be levied and collected by the Government of India and distributed between the Union and the States.

Taxes levied and collected by the Union and distributed between the Union and the States.

Article 272 provides that Union excise duties other than duties on medicinal and toilet preparations shall be levied and collected by the Government of India but if Parliament so provides there shall be paid out of the Consolidated Fund of India to the States sums equivalent to the whole or any part of the net proceeds of the duty in accordance with such principles of distribution as may be formulated by law.

Taxes levied and collected by the Union and may be distributed between the Union and the States.

Under Article 271, Parliament may at any time increase any of the duties or taxes referred to in Articles 269 and 270 by a surcharge for purposes of the Union and the whole proceeds of any such surcharge shall form part of the Consolidated Fund of India.

Surcharge on duties and taxes for purposes of the Union.

The Jute Export duty was, until recently, shared between the Centre and the jute-growing provinces. Under Article 273 of the new Constitution, however, the States will not get any shares of the jute export duty, but in lieu thereof they are to get grants from the Centre for a period of 10 years.

Grants in lieu of Jute Export duty.

The Constitution provides that such sums as Parliament may determine shall be charged on the Consolidated Fund of India each year as grants-in-aid to such States as Parliament may determine to be in need of assistance and different sums may be fixed for different States. Grants-in-aid also will be paid to meet the cost of development schemes undertaken by the States with the Centre's approval, to promote the welfare of the scheduled tribes, or to raise the level of the administration of scheduled areas to that of the rest of the areas of that State. Provision has been made for grants-in-aid to Assam equivalent to the average excess of expenditure over revenue during the two years immediately preceding the commencement of the Constitution in respect of the administration of tribal areas, and the cost of development schemes undertaken in Assam with the approval of the Government of India for raising the level of administration.

Grant-in-aid.

Taxes on trades, professions and callings.

Provision has been made for enabling the legislature of a State to levy taxes for the benefit of the State or of a municipality, district board, local board or other local authority therein in respect of professions, trades, callings, or employments up to the total amount of 250 rupees per annum payable by a person.[1]

Salt Tax.

In view of the association of the salt tax with the freedom movement of India, it was proposed to include its abolition in the Constitution. But, ultimately, it was thought wise not to fetter the hands of future legislators. The question of salt duty has, therefore, been left open for the future Parliaments to decide.

Taxation of Union property.

It has been provided in the Constitution that the property of the Union shall be exempt from all taxes imposed by a State or by any authority within the State except in so far as such taxes existed at the commencement of the Constitution. Local bodies wanted such taxing power, but the Drafting Committee was not prepared to give such bodies a *carte blanche*. The Constitution also exempts State property from Union taxation.

Comment.

The system of financial allocation between the Centre and the States, which was adopted under the provisions of the New Constitution, had many defects and a few merits. The main defect is that, while a heavy and expanding burden of duties and responsibilities has been placed on the States, very few expansive sources of revenue have been allotted to them. It is unfortunate that "grants-in-aid"—which bless neither the giver nor the receiver and which were repeatedly condemned in the past and discarded—again found an important place in the financial system. The net result of this allocation sure to be that the States would be financially weak and dependant on the mercy of the Centre. Thus an undesirable situation would arise in which lack of funds would compel the States either to starve the all-important social services or to sacrifice their autonomy. The chief merit of the scheme was that it would not be absolutely rigid, but possesses

[1] This is subject to the proviso that if in the financial year immediately preceding the commencement of the Constitution there was in force a rate of tax which exceeded 250 rupees per annum, such rate may continue to be levied until Parliament decides otherwise.

some measure of flexibility, so that in future the allocation may be adjusted to the relative needs of the Central and State Governments. The Constitution, therefore, left the future system of financial adjustment in the hands of Parliament after the period of transition. If future Parliaments can bring foresight, justice and impartiality to bear on the question of the distribution of financial resources, not only between the Centre and the States but also among the States *inter se*, the system would work well; otherwise it would lead to inefficiency, discontent and conflict.

3. ALLOCATIONS BY THE FINANCE COMMISSION

Finance Commission's Recommendations.

. .e Finance Commission, which was appointed in November 1951 under the Presidentship of Shri K. C. Neogy, in terms of Article 280 of the Constitution of India, submitted their Report on December 31, 1952. The main recommendations of the Commission were (1) increase in the States' share of the net proceeds of Income-tax from 50 per cent to 55 per cent, of which four-fifths would be allocated among them on the basis of the relative population and the balance on the basis of the relative collection; (2) increase in grants-in-aid by the Centre to Assam, Bihar, Orissa and West-Bengal in lieu of a share in the export duty on jute and jute products; (3) allocation to the States, on a population basis, of 40 per cent share in the net proceeds of Union Excise Duties on tobacco, matches and vegetable products; (4) (*a*) increased and additional general grants-in-aid to certain States which were in need of assistance and (*b*) special grants to certain less developed States for expansion of primary education therein. All the recommendations were accepted by the Government. Under the scheme recommended by the Commission, the total amount by way of Central grants and devolution of revenue to the States would be larger by about Rs. 21 crores at nearly Rs. 86 crores annually, as against the annual average of Rs. 65 crores in the three-year period 1949-50 to 1951-52.

Allocation of income tax pool.

As regards the allocation of income-tax, fixed percentage shares of the divisible pool were prescribed for both Part A and Part B States in the following manner: Part A States—Assam —2·25; Bihar—9·75; Bombay—17·50; Madhya Pradesh—5·25;

Madras—15·25; Orissa—3·50; Punjab—3·25; Uttar Pradesh—15·75; West Bengal—11·25. Part B States—Hyderabad—4·50; Madhya Bharat—1·75; Mysore—2·25; Pepsu—0·75; Rajasthan—3·50; Saurashtra—1·00; Travancore-Cochin—2·50.

Shares of Excise duties.

The Commission recommended that 40 per cent. of the net proceeds of the Union excise duties on tobacco (including cigarettes, cigars, etc.), matches and vegetable products be allocated to the States on the basis of their population. As a corollary to this recommendation, they recommended stoppage with effect from April 1, 1953 of yearly compensation paid to Bombay (Rs. 54 lakhs), Madras (Rs. 56 lakhs) and Madhya Pradesh (Rs. 1·5 lakhs) on account of their refraining from levying tax on tobacco, but these States would now be free to levy taxes on tobacco in the same manner as other States.

The selection of only three Union Excise Duties for division was on the ground that the commodities subject to excise duties selected were of common and widespread consumption and yielded a sizeable and reasonably stable sum of revenue for distribution.

The share of the States worked out on the basis of population was as follows: Part A States—Assam, 2·61%; Bihar, 11·60%; Bombay, 10·37%; Madhya Pradesh, 6·13%; Madras, 16·44%; Orissa, 4·22%; Punjab, 3·66%; Uttar Pradesh, 18·23%; West Bengal, 7·16%. Part B States—Hyderabad, 5·39%; Madhya Bharat, 2·39%; Mysore, 2·62%; PEPSU, 1·00%; Rajasthan, 4·41%; Travancore-Cochin, 2·68%.

Grants to jute growing States.

The Commission recommended increased grants to the four jute-growing States, *viz.*, West Bengal, Bihar, Assam and Orissa in lieu of a share of the export duty on jute and jute products under Article 273. The following figures showed the grants as payable to the States under the Commission's recommendations: West Bengal, Rs. 150 lakhs; Bihar, Rs. 75 lakhs; Assam, Rs. 75 lakhs; and Orissa, Rs. 15 lakhs.

Other grants.

They expressed the view that both the methods of conditional and unconditional grants should have their part to play in the scheme of assistance by the Centre. Unconditional grants should reinforce the general resources of the States, which they would be free to allocate among competing purposes according to their best judgement, subject to the usual administrative and

parliamentary checks. Grants for broad purposes might be given to stimulate the expansion of particular categories of services rather than specified schemes under those categories. The Commission recommended that grants might be given to further any beneficent services of primary importance in regard to which it was in the national interest to assist the less advanced States to go forward.

The following figures showed the amounts of grants as recommended for individual States:—Assam, Rs. 100 lakhs; Mysore, Rs. 40 lakhs; Orissa, Rs. 75 lakhs; Punjab, Rs. 125 lakhs; Saurashtra, Rs. 40 lakhs; Travancore-Cochin, Rs. 45 lakhs; and West Bengal, Rs. 80 lakhs.

Eight States were recommended grants for expansion of primary education on a rising scale (from a total of Rs. 150 lakhs in 1953-54 to Rs. 300 lakhs in 1956-57), the share of each State being in proportion to the number of children of school-going age not attending school.

Report disappointing.

It was expected that the Finance Commission would evolve a better scheme of allocation of resources between the Centre and the States and among the States *inter se*, so that adequate funds might be placed at the disposal of the States which would enable them to discharge their growing responsibilities in the proper manner. Looked at from this standpoint, the Report of the Finance Commission was a disappointing document. Bombay and West Bengal protested against the formula adopted by the Commission for the distribution of the divisible pool of income-tax among the States.

West Bengal's position.

West Bengal, which had been smarting under a keen sense of injustice by the deprivation under the provision of the New Constitution of her legitimate share in the proceeds of the duty on jute and jute goods took a serious exception to the decisions of the Commission. Substantial grants were recommended by the Commission in lieu of jute duty and for re-habilitation of displaced persons for West Bengal, but it should be remembered that grants do not stand on the same footing as rightful shares in the proceeds of taxation.

A new Commission was appointed on June 1, 1956 with Shri K. Santanam as the President. Its *interim* recommendations have already been published, and its final recommendations are being anxiously awaited by the Centre as well as the States.

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4. CHIEF SOURCES OF CENTRAL REVENUE

Customs.

Customs form the largest source of revenue of the Union Government. Customs revenue dates from the early days of the East India Company. But its yield was not large during the Company's rule. In 1857-58, the income from this source amounted to only a crore of rupees. After the assumption of the administration by the British Crown, the growth of customs revenue was very slow for a long time. It was during and after the First World War that there were sharp successive rises in the yield of customs. Till the commencement of this war, the Indian tariff had been based on the orthodox free trade principles. The customs duties were levied solely for fiscal purposes, and were not protective or preferential in their nature. The financial exigencies of World War I, however, introduced considerable changes into the fiscal arrangements of the country. In spite of an avowed free trade policy, the tariff rates were raised several times till at last the duties on cotton piece-goods, sugar, iron and steel manufactures, paper and pasteboard, dyes and paints, and some other articles became moderately protective in character. The customs tariff then acquired an importance which it had never possessed before.

Original purpose solely fiscal.

Indirectly protective.

Discriminating protection.

The Indian Fiscal Commission of 1922 recommended the adoption by India of a policy of discriminating protection. Though halting and unsatisfactory in many respects, this recommendation marked the beginning of a new tariff policy in India. The net receipt from customs duties amounted to Rs. 40·51 crores in 1938-39. Customs revenue shrank enormously during the Second World War with the diminution of foreign trade. But the buoyancy of customs is evident from the fact that in the post-war period it again showed unmistakable signs of revival.

The yield from customs in 1954-55 was Rs. 184·86 crores. In the revised estimate for 1955-56 it showed a revenue of Rs. 165·00 crores. In the budget for 1956-57 it has been estimated at Rs. 150·00 crores. The total yield from customs was Rs. 182·43 crores in 1954-55 of which Rs. 141·06 crores accounted for imports and Rs. 41·37 crores for exports while Rs. 4·76 crores were realised from land customs and air customs etc. but

refunds to the extent of Rs. 2·33 crores were made during the same period.

Customs revenue is generally elastic; it tends to expand with the expansion of trade and industry. As for the incidence of customs duties, those on matches and kerosene fall on almost the entire community, but more heavily on the poorest than on the other classes. The cotton duty is paid by the entire population. The tax on refined sugar, stationery, and paper affects mainly the middle class; while the heavy duties on motor cars, silk manufactures, cigars and cigarettes, and jewellery fall on the richer classes who are best able to bear the burden. The high duties on iron and steel, while they press upon important industries and means of communication, have the beneficial effect of safeguarding an industry of vital national importance. The duty on liquor tends to check, however slightly, the consumption of a deleterious article.

Character of customs revenue.

Incidence on different classes.

Although formerly there was a tendency for the customs duty to fall more heavily on the poor than on the rich, the trend in recent times has been in the reverse direction. Luxury goods are being heavily taxed, while imports of the necessaries of life are admitted free of duty or at low rates.

Excise duties.

In the early thirties, excise duties, *i.e.,* consumption taxes levied on local production, were imposed by the Government of India on the production of a number of articles. The main object of the levy of these duties was to recoup the financial losses suffered by the Government by reason of the substantial fall in the revenue derived from the import duties. Excise duties were imposed on sugar for the first time in 1934. The rates were increased in 1937. On motor-spirit, an excise duty was levied in 1929 for the first time. A portion of the receipts from the excise duty on motor-spirit was transferred to the provinces for the purpose of road development. Matches were subjected to excise duty in 1934.

Cotton excise.

From 1896 an excise duty of 3½ per cent., *ad valorem,* used to be levied on cotton goods and yarn produced by Indian mills, with the object of countervailing the almost negligible protective effect of the import duty on those articles. This duty was suspended in 1925 and abolished in March, 1926. The total yield of this duty was nearly 6 crores in 1924-25.

Changes in excise duty.

The period of the Second World War witnessed a number of changes in the central excise. Owing to the exigencies of war, the duties were generally revised in the upward direction, as a result of which the income from this source largely increased. Even after Partition the excise duties continued to be a prolific source of revenue. A further expansion of yield was due to a general increase in the rates of excise duties on matches, vegetable products, tea, coffee, sugar, motor vehicle tyres, etc., and to the imposition of an excise duty of 25 per cent. on ex-factory prices of cigarettes. After a long interval the cotton excise was revived in January, 1949 by the then Finance Minister, Dr. John Matthai and continued by his successor. A sum of Rs. 13·46 crores was realised from this source in 1952-53. The yield from excise duties in 1954-55 was Rs. 108·22 crores and in the budget for 1956-57 it is estimated at Rs. 170·45 crores. A further levy of excise duty amounting to Rs. 17·5 crores (on cotton textiles) was made by the new finance minister Sri T. T. Krishnamachari in September 1956. In the six months April to September 1956 the receipts from excise duties amounted to Rs. 85·98 crores. Judging from the trends of collection upto September it is expected that excise revenue will reach an all-time high level in 1956-57.

Incidence.

The incidence of excise duties is on all persons who consume locally produced goods. The tax falls more heavily on the poor and middle classes of society than on the rich.

Taxes on income.

Next to customs, taxes on income used to form the most important source of revenue but this item has now yielded place to excise-duties. Income-tax is the most equitable of all taxes, as it is based on the principle of ability to pay. An

1860-65.

income-tax was for the first time introduced in India in 1860 to meet the financial stringency caused by the Mutiny of 1857-58. It was levied at the rate of 2 per cent. on incomes between Rs. 200 and Rs. 500, and at the rate of 4 per cent. on all incomes above Rs. 500 per annum. This tax expired

1869-73.

in 1865. It was re-introduced in 1869, and lasted for four years. The income-tax found a permanent place on the

1886.

statute-book in 1886. On this occasion, it was levied on incomes derived from sources other than agriculture (which was exempted). On incomes of Rs. 2,000 and upwards it fell

at the rate of 5 pies in the rupee; on incomes between Rs. 500 and Rs. 2,000 at the rate of 4 pies in the rupee. In 1903, the taxable minimum was raised to Rs. 1,000. In 1916-17, as one of the measures needed to finance the war, the rates of income-tax were completely revised and largely increased; and the progressive principle was definitely adopted. Another feature of war taxation in India was the imposition of the super-tax in 1917. This was levied in addition to the ordinary income-tax on large incomes above Rs. 50,000. An Excess Profits Duty was levied in 1919-20 on all incomes made by companies or individuals above the normal standard. This duty yielded a sum of Rs. 11⅓ crores. It was allowed to lapse in the following year.

Changes in 1916-17.

Super-tax in 1917.

Further changes were made in 1922, when the law relating to the income-tax was placed on a sound basis. The rates were increased in that year; these increased rates remained unchanged till 1930.

Further changes.

Income-tax Act of 1922.

There were various increases in the rates of income-tax, including the imposition of surcharges, between 1930 and 1934, owing to deficits in the budgets. In 1935-36 surcharges on the income-tax and on the super-tax were reduced as the result of an improvement in the financial position, and in 1936-37 incomes between Rs. 1,000 and Rs. 2,000 per annum were made free of income-tax.

1930-34.

1936-37.

The Taxation Enquiry Committee of 1923 had referred to the various defects of the Indian income-tax system. Another Income-tax Enquiry Committee was appointed in 1936 for making recommendations as to the best method for reorganizig the Indian Income-tax system. This Committee made important recommendations with a view to improving the administration of the tax. It recommended the substitution of the "slab" system for the "step" system in regard to the ordinary income-tax. For purposes of assessment, the Committee recommended that the incomes of husband and wife should be assessed jointly and the word "income", for taxation purposes, should refer to world income and, not necessarily, to income arising in British India. The basis of assessment, according to the Committee, should be "accrual" and not the actual receipt of income. The main recommendations of the Committee were incorporated in the Icome-tax

Defects of step system.

Recommendation of Income-tax Enquiry Committee, 1936.

Step system replaced by slab system.

Basis of assessment 'accrual', not actual receipt.

Income-tax Act, 1939.

(Amendment) Act of 1939, which introduced important changes in the Indian income-tax system.

Changes during World War II.

The outbreak of hostilities led to a number of swift changes. Apart from the levy of the Excess Profits Tax in 1940, there were sharp increases in the rates of income-tax. Surcharges also began to be levied. The increase in surcharge in 1945 was accompanied with a scheme of relief in respect of the earned income. Thus the differentiation between earned income and unearned income, which is a feature of the taxation system in the most advanced countries, was first introduced in the Indian tax system.

Post-war changes.

1946.

In 1946 the first post-war budget presented by Sir Archibald Rowlands, a number of substantial concessions was offered to industry and moderate income groups. The most spectacular reliefs were the withdrawal of the Excess Profits Tax, and a net reduction of $1\frac{3}{4}$ annas in the total of Super-tax and Income-tax payable by companies. Rates of income-tax were slightly reduced on certain slabs of income, the earned income allowance was raised from 1/10th to 1/5th of the earned incomes, subject to a maximum of Rs. 4,000, and differential treatment was also made in favour of earned incomes at the super-tax range at the rate of 1 anna in the rupee for incomes between Rs. 25,000 and Rs. 2 lakhs, and of half that rate for incomes between Rs. 2 lakhs and Rs. 5 lakhs.

1947.

In 1947, in Liaquat Ali's budget there was made a number of changes. The minimum exemption limit was raised from Rs. 2,000 to Rs. 2,500. As the abolition of the Excess Profits Tax, in the opinion of the Finance Minister, was premature in view of the abnormal conditions, a Business Profits Tax at 25 per cent. on profits exceeding 1 lakh was proposed; the rate of tax finally passed was $16\frac{2}{3}$ per cent. A Capital Gains Tax, on the U.S.A. model, was introduced on a graduated scale in respect of capital gains in excess of Rs. 15,000. This was defended on the ground of its being a tax on unearned income. The rate of Corporation Tax was doubled and steep progression in the scale of Super-tax was introduced, the rate being $10\frac{1}{2}$ annas in the rupee at 1·2 lakhs for unearned incomes and Rs. 1·5 lakhs for earned incomes.

Although approved by the Legislative Assembly, Liaquat Ali Khan's budget of 1947-48 was received with a chorus of protest by the business community and the general public. In response

to their insistent demand for relief in taxation, the next budget presented by Sri Shanmukhum Chetty, in 1948, introduced certain changes in the tax-system. The rate of Business Profits Tax was reduced from 16⅔ per cent. to 10 per cent. and the abatement allowed was raised from Re. 1 lakh to Rs. 2 lakhs The limit at which the maximum rate of Super-tax of 10½ annas was to be applied was raised to Rs. 3½ lakhs in respect of both earned and unearned incomes. These changes were calculated to promote saving and investment. The basic rate of Income-tax on companies remained unaltered at 5 annas in the rupee, but the rate was reduced to 2½ annas in respect of companies having an income of Rs. 25,000 and below. This was likely to encourage the growth of small concerns. The basic rate of 5 annas in the rupee on companies with an income exceeding Rs. 25,000 per annum was reduced to the rate of 4 annas in the rupee in respect of undistributed profits; and a rebate of ½ anna in the rupee was allowed in respect of undistributed profits of smaller companies with an income not exceeding Rs. 25,000. This concession was obviously intended to encourage the ploughing back of profits into business. The Corporation Tax was raised from 2 annas to 3 annas in the rupee, but a rebate of one anna was allowed to the companies which would declare and distribute their profits in India. This discrimination in favour of Indian companies was intended to prevent leakage of Indian tax-revenue. The exemption limit was raised from Rs. 2,500 to Rs. 3,000, because of the high prices prevailing in the country. 1948.

The lead given by Sri Chetty in the matter of giving tax-relief was followed by Dr. John Matthai in his budget proposals for 1949-50. The Capital Gains Tax was abolished on the ground that, while the yield from this source was negligible, the psychological effect on investment had been markedly adverse hindering, as it did, free movement of stocks and shares. In order to give relief to tax-payers in the lower and medium income-brackets, the rate of tax on personal incomes up to Rs. 10,000 was reduced by a quarter of an anna. With regard to Super-tax, some concessions were made, the rate of tax on earned incomes above Rs. 1½ lakhs was reduced by 1½ annas, bearing the maximum rate, income-tax and super-tax taken together, at 14 annas. The maximum rate of super- 1949.

tax on unearned incomes was reduced by ½ anna to 10 annas. This was intended to provide some incentive to saving and investment; it also corrected an anomalous situation under which no differentiation between earned and unearned incomes was made in incomes exceeding 1½ lakhs. In view of the prevailing high prices, depreciation allowances to industries were further liberalised, in order to enable them to renew their capital assets.

1950. The Budget for 1950-51 abolished the Business Profits Tax, as with the present reduced levels of profit this tax was considered to be bearing harshly upon industrial concerns. The rate of Income-tax payable by the companies was reduced from 5 annas to 4 annas, but the company Super-tax was raised by half an anna. In order to give some relief to the middle class, the rate of tax applicable to the slab of personal incomes between Rs. 10,000 and Rs. 15,000 was reduced from 3½ annas to 3 annas. The exemption limit was raised to Rs. 3,000 to give relief to the lower income groups. In the case of undivided Hindu families, the exemption limit was raised from Rs. 5,000 to Rs. 6,000. In order to stimulate saving and investment the rate of tax on the slab of income in excess of Rs. 15,000 was reduced from 5 annas to 4 annas. The distinction between earned and unearned income in the field of personal Super-tax was abolished and the maximum rate of Super-tax was fixed at the uniform rate of 8½ annas.

1951. In the budget for 1951-52 the rate of Corporation tax was raised from 2½ annas to 2¾ annas and a reduction from 2 annas to 1½ annas in the rebate of Super-tax to life insurance companies in respect of profits accruing to shareholders, was made. In accordance with the recommendations of the Select Committee, the following changes in tax on income were incorporated in the Finance Act, 1951: (1) exemption from Surcharge of incomes not exceeding Rs. 7,200 in the case of a person other than company and Rs. 14,400 in the case of Hindu undivided families, (2) continuance of Super-tax rebate at the old rate of 2 annas in the rupee for mutual insurance companies which do not distribute any dividend.

1953. The budget proposal for 1953-54 to raise the tax exemption limit for personal incomes from Rs. 3,600 for individuals and

Rs. 7,200 for Hindu undivided families to Rs. 4,200 and Rs. 8,400 respectively had as its objective not merely relief in tax but also some easing of the pressure on the income-tax administration.

In the budget for 1955-56, many changes were made in the details of the income tax, the most important of which were: (1) the tax exemption slab of Rs. 1,500 was raised to Rs. 2,000 for married persons and reduced to Rs. 1,000 for unmarried persons as a first step towards a Scheme of family allowances; and (2) as a first step towards the abolition of the earned income allowance on higher income brackets, the earned income relief of Rs. 4,000 was reduced by Rs. 200 for each Rs. 1,000 of income in excess of Rs. 25,000, the relief ceasing altogether at the level of Rs. 45,000. Besides, the level at which Super-tax would become leviable was reduced from Rs. 25,000 to Rs. 20,000. Further, a number of changes was made with a view to rationalising the tax structure. The net effect of the changes was an increase of Rs. 8·7 crores in revenue. 1955.

The changes in income-tax in the budget for 1956-57 included (1) an upward adjustment of Super-tax rates on incomes exceeding Rs. 70,000, raising the combined marginal rate on incomes above Rs. 1,50,000 to 14 annas in the rupee; (2) a graduated tax on registered firms with incomes above Rs. 40,000 at 9 pies in the rupee up to Rs. 75,000, one anna up to Rs. 1,50,000 and $1\frac{1}{2}$ annas over Rs. 1,50,000 with provision for marginal relief; (3) the discontinuance of rebate of one anna in the rupee hitherto given to all companies to which section 23A does not apply in respect of income-tax on undistributed profits; (4) the levy of a graduated Super-tax (in addition to the existing Corporation tax) on dividends above 6 per cent of paid up capital, at 2 annas in the rupee on the dividend amount in excess of 6 per cent but not more than 10 per cent and at 3 annas in the rupee on the excess over 10 per cent.; (5) the levy of an extra company Super-tax of 2 annas in the rupee on the face value of bonus shares issued during the previous year; (6) the increase in the penal rate of Super-tax from 4 annas to 8 annas on the whole of undistributed profits, if profits distributed as dividends in any year were less than the prescribed minimum. The above changes and certain other changes in concessions were expected to yield an additional 1956.

revenue of Rs. 10 crores, including the States' share amounting to Rs. 1·80 crores.

Yield of taxes on income.

The revenue derived from the taxes on income increased enormously after the First World War. During the period 1899-1913, the annual yield was only Rs. 1·19 crores, which increased to Rs. 10·70 crores in 1919-20. There was a great jump forward in the yield in the years 1921 to 1923, after which slight decreases in the yield took place.

Growth.

It may be observed that the increased revenue from the taxes on income since the First World War was due to the introduction of Super-tax and the principle of progression in taxation as well as to tightening of the Income-tax machinery.[1] During the Second World War the yield from the taxes on incomes increased by leaps and bounds. The yield of the Income-tax rose from Rs. 15·24 crores in 1938-39 to Rs. 107·02 crores in 1944-45. The yield of the Corporation Tax rose from Rs. 2·04 crores in 1938-39 to Rs. 84·22 crores in 1944-45. The spectacular rise in the yield of Income-tax and Super-tax was largely due to the enhancing of the rates of taxation, but it was also partly due to the growth in money incomes of the community brought about by the phenomenal increase in the war expenditure of the Government. After the cessation of hostilities the yield of the taxes on income showed a slight diminution. The yield from taxes on income other than Corporation Tax was Rs. 122·26 crores and that from Corporation Tax was Rs. 37·33 crores in 1954-55. In the budget for 1956-57 they have been placed at Rs. 138·16 crores and Rs. 41·84 crores respectively.

Nature of Indian Income-tax.

The Income-tax has now come to occupy its rightful place in the Indian tax structure. One peculiar feature about the Indian Income-tax system is that agricultural income is exempted from payment of this tax. But so far as agricultural incomes have been made a State source of revenue, much advantage has accrued to the States.

Income-tax evasion.

The Indian Income-tax system has been modernised and brought into line with the income-tax systems of other advanced countries. The system today is steeply progressive and seems to be more progressive than in many advanced

[1] During World War II the Income-tax machinery was further tightened.

Western countries. It is argued that such a high level of taxation has driven wealth underground. The Income-tax Investigation Commission, which was appointed to trace war-time tax-dodgers, estimated the wealth that had evaded income-tax to be about Rs. 1,000 crores. The problem of checking tax evasion is one of the most difficult problems facing the country.

The Indian Income-tax system has adopted the principle of differentiating between earned and unearned incomes, with discriminatory rates in favour of earned incomes. But one serious omission in the system is that the exemption limit here, unlike in many other countries, bears no relation to the cost of subsistence.

Excess Profits Tax.

An Excess Profits duty of 50 per cent. was first imposed in India in 1919 on all excessive profits due to the war above the normal, but it had a very brief life, it being allowed to lapse in the following year. During the Second World War an Excess Profits Tax was imposed in 1940 at the rate of 50 per cent. In 1941, the rate was raised to $66\frac{2}{3}$ per cent., of which 1/10th was refundable at the end of the war. In May, 1943, an Ordinance was promulgated enforcing a compulsory refundable deposit of 20 per cent. of the Excess Profits Tax payable. In 1944, the Excess Profits Tax compulsory deposit was increased to 19/64th of the tax provisionally fixed and was made payable at the time of the provisional assessment. The tax was withdrawn in 1946. As we have already noticed, it was revived in 1947 by Janab Liaquaut Ali Khan under the name of the Business Profits Tax, but in a milder form. In 1948, Sri Chetty reduced the rate and raised the exemption limit. Business Profits Tax was accompanied by a Capital Gains Tax. But the Capital Gains Tax was abolished by Dr. Matthai in 1949 and the Business Profits Tax in 1950.

Yield and nature of Excess Profits Tax.

The Excess Profits Tax yielded a handsome revenue. On this account the companies paid Rs. 68·33 crores in 1945-46; and the individual income under this head amounted to Rs. 24·67 crores in 1944-45. Excess Profits are regarded as wind-falls and a tax on them is an ideal form of wind-fall taxation. But a high rate of Excess Profits Tax encourages extravagance in the shape of increased wages, etc., just to evade the tax. But everywhere it has been a potent source of war

finance. In England, for instance, there was a 100 per cent. Excess Profits Tax, subject to a refund of 20 per cent. at the end of the war.

Salt.

The salt tax was always regarded by the British Government in India as a fiscal reserve to fall back upon in case of financial stringency.[1] The revenue could be increased without any material addition to the cost. For a long time the salt tax held a place second only to the land revenue. The successive reductions in the duty in 1903, 1905, and 1907 resulted in substantially lightening the burden which it imposed on the people. From 1908 to 1916 the tax was levied at Re. 1 per maund. In 1916 it was raised to Rs. 1-4 as. In 1923-24, it was raised to Rs. 2-8 as. in the teeth of popular opposition and by the exercise by the Governor-General of the special powers vested in him. In 1924-25, however, in deference to public opinion, the rate was reduced to Re. 1-4 as. per maund. This rate continued till the abolition of the tax, but a surcharge at the rate of 25 per cent. on this rate as a protective duty was in operation from 1931. Seven-eighths of the receipts from this additional duty were handed over to the provinces in which the imported salt was consumed, the object being to encourage the local salt industry. The rates of the additional duty were subsequently reduced, and the additional duty itself expired in 1938.

Rate of duty.

Protective duty on salt.

Character of salt duty.

The salt duty produced 8·8 crores in 1936-37. Salt is a vital necessity to the people, and the tax was persistently objected to by popular representatives. Though much might be said in justification of the salt duty on the ground of its being an old tax and of its very low incidence, as also its revenue-producing capacity, it was highly unpopular. Mahatma Gandhi and the Congress party were committed to its abolition, and the first fiscal measure of reform undertaken after the attainment of independence was the abolition of the salt tax in 1948.

Opium.

The production of opium is a Government monopoly in British India. Poppy cultivation is permitted only in parts of Bihar and U. P., and is under the control of the Government. By the agreement with the Chinese Government, as well as

[1] The production of salt was not a Government monopoly, but private manufacture was prohibited owing to the difficulty of preventing an evasion of the tax.

under certain international conventions, the Government of India were obliged to reduce the production and export of opium. The revenue from opium, which was at one time a very important item in the financial resources of the Government, dwindled down to Rs. 2·18 crores in 1952-53. It has been placed at the figure of Rs. 2·10 crores in the budget for 1956-57.

Revenue from railways. Of the income derived from soucres other than taxation, that from railways formed at one time by far the largest proportion. In 1925-26, the railway budget was separated from the general budget under the Convention of 1924. It was arranged that out of the net profits a sum of Rs. 5·09 crores was to be annually contrbuted to the general revenues. From the balance the sum of Rs. 3 crores was to be transferred to the railway reserve. Further, one-third of the surplus left after the transfer to the reserve was to accrue to the general revenues. The net railway receipts amounted to Rs. 32·70 crores in 1936-37.

Railway budget separated from the general budget in 1925-26.

World War II. During the Second World War railway earnings increased greatly, due mainly to enormous expansion in the volume of traffic caused by war operations, and also to increase in fares. The railway contribution rose to Rs. 37·64 crores in 1943-44.

Post-War railway revenue. During the post-war period the railway budget for some time did not show much surplus and therefore the railway contribution also declined. Under the new Convention of 1950, adopted for a period of five years commencing from 1950-51, an annual dividend is payable to General Revenues at 4% on the Capital invested in railways. But railways began again to earn surpluses and in 1952-53 the railway contribution to general revenue was Rs. 7·11 crores. But after 1952-53 net contribution of railways again began to decline. The figures for 1953-54, 1954-55 were Rs. 6·95 crores and Rs. 6·68 crores respectively. In the budget for 1956-57 it has been placed at Rs. 6·57 crores.

Posts and Telegraphs. Posts and telegraphs used for a long time to be a source of considerable profit to the Government. The revenue from this source rose from Rs. 0·19 crores in 1938-39 to Rs. 11·31 crores in 1945-46. This increased yield was due mainly to the increase in postal and telegraph rates. After the end of the War the yield showed a gradual decline. Postal rates

were enhanced in 1949. This increase in the postal and telegraph rates added to the burden of taxation borne by the poor people. In the budget for 1950-51, a slight decrease in the rates was made. In 1954-55 it amounted to Rs. 2·60 crores while in the budget for 1956-57 it has been placed at Rs. 1·60 crores.

Estate duty.

Under the Indian law of succession, when a person applies for a succession certificate, he has to pay a fee which exceeds so much the cost of providing the service that it clearly contains an element of taxation. But the vast majority of the people are not required to pay this fee. The question of imposition of a general estate duty in this country was under consideration for a long time past.

Various arguments in favour of, and against, a death duty were urged by different persons. The principal arguments in favour were that it was in the nature of a windfall and being a direct tax would lend admirably to the application of the principle of progression. On the other hand, the practical difficulties in imposition and collection were emphasised by certain other persons.

Historical background.

In 1925, the Taxation Enquiry Committee suggested the imposition of an estate duty but the recommendation could not be given effect to for a number of years. The need for such a duty was felt by the Government during World War II which helped a number of people to amass large fortunes but such a duty could not be levied under the Government of India Act 1935. A Bill seeking to impose such a duty was first introduced in 1946 and then reintroduced in the Provisional Parliament in 1948. The latter Bill after being considered by the Select Committee lapsed on the dissolution of that Parliament.

Estate Duty Bill, 1952.

The object of the Estate Duty Bill which was introduced in August, 1952 was to impose an estate duty on property 'passing' or 'deemed to pass' on the death of a person. Though the levy and collection of income tax at high rates since the War and the investigation undertaken by the Income Tax Investigation Commission in a number of important cases of tax evasion had prevented to some extent the concentration of wealth in the hands of persons who were already wealthy, yet these did not amount to positive steps in the direction

of reducing the inequalities in the distribution of wealth. It was hoped that by the imposition of an estate duty such unequal distributions might be rectified. Such a measure would also assist the financial resources of the Government. The Bill was passed on the 6th October, 1953 and came into effect on October 15, 1953. The Act applies to the whole of India except the State of Jammu and Kashmir.

Passed in 1953.

All properties both moveable and immoveable situated in the States of India, are liable to duty. Immoveable property outside the territories to which this Act applies are not dutiable, but foreign immoveable properties of a person domiciled in India at the time of his death attract the duty. Estate duty is a mutation duty, in that it is charged according to the value of the property changing hands on death irrespective of to whom it passes. Duty is payable on the capital value of all property, real or personal, settled or not settled, which 'passes' or is 'deemed to pass' on the death of any person on or after October 15, 1953.

Rates of duty.

The rates of duty prescribed in the Act were fixed under a slab system. That is to say, different rates of duty are applicable to each successive slab in an ascending scale. No duty is payable on the first slab of Rs. 50,000 worth of property which consists of an interest in a Hindu family governed by the Mitakshara, Marumakattayam or Aliyasantana law. In the case of other properties, no duty is payable on the first slab of Rs. 1,000,000. The rates of duty in the former case range from 5 per cent. on the first Rs. 1,00,000 to 40 per cent. on a sum exceeding Rs. 5,000, 000 and in the latter case range from 7½ per cent. on the first Rs. 1,50,000 to 40 per cent. on a sum exceeding Rs. 5,000,000. In the case of shares held by a deceased member in a company a rate of 7½ per cent. is payable if the principal value of the share exceeds Rs. 5,000. Certain properties such as gifts, insurance policies, etc., are exempt from duty upto a certain limit but are to be included in the principal value of the Estate for the purpose of determining the rate.

Relief.

Relief was provided for quick succession to the same property. The Act is being administered through officers of Income-tax department. Appeals may be preferred to the

Central Board of Revenue and on points of law references may be made to the High Court and the Supreme Court.

It was expected by the then Finance Minister that a gross revenue of Rs. 2·50 crores would be realised from this source in 1956-57; the bulk of which will be distributed to the States, leaving a sum of Rs. 1,800,000 only for the Centre.

Incidence of taxation high.

Whatever might have been the incidence of taxation years ago, it can hardly be denied that the present level of taxation is very high. The old theory that 'taxation is a necessary evil' is inapplicable in modern states. But whether, and to what extent, the theory, namely, 'taxation is a necessary good' is applicable, depends in any country on the objects on which the proceeds of taxation are spent. Heavy taxation can be justified in India if it can be proved that it helps the promotion of the physical, mental, moral and economic well-being of the people and does not prove an unconscionable burden on society.

Taxation Enquiry Commission.

A Taxation Enquiry Commission was set up in April 1953 under the Presidentship of Dr. John Matthai, in order to examine the tax system of the country—Central, State and local—and to make recommendations with regard to the modifications required in the system of taxation as well as to suggest fresh avenues of taxation. The Commission submitted final report in 1955.

5. MAIN HEADS OF CENTRAL EXPENDITURE

Basic principle in expenditure.

In Public Expenditure the basic principle should be public advantage. Expenditure should be so apportioned between the different heads that the public may derive the maximum utility from each. In preparing his annual budget, the Finance Minister usually attempts to balance the two sides, and should try to secure a surplus. He should always have in view the well-known canons of expenditure as well as those of taxation.

Principal heads.

The principal heads of expenditure are the following: Direct Demands on Revenue, Debt Services, Civil Administration, Civil Works, Defence Services, and Miscellaneous.

Direct demands.

Direct Demands on the Revenue represent the cost of collection.* This is, of course, an absolutely necessary item of expenditure. The amount spent under this head was about

Rs. 4·27 crores in 1937-38. In 1954-55, this item of expenditure amounted to Rs. 29·48 crores. In the budget for 1956-57, it has been estimated at Rs. 37·14 crores. There seems to be considerable room for the practice of economy in this respect.

Debt services.

Expenditure on Debt Services amounted in 1937-38 to Rs. 12 crores 56 lakhs, made up of the interest on ordinary debt, interest on other obligations, and appropriations for reduction or avoidance of debt. Expenditure under this head rose to Rs. 39·72 crores in 1954-55 and in the budget for 1956-57 a sum of Rs. 35·50 crores has been provided.

Defence expenditure. **History.** **Heavy burden.** **1936-37.** **1954-55.**

Defence expenditure in India during British Rule was the subject of very adverse comment. It was the British portion of the army[1] that accounted for the greater part of the expenditure. The net expenditure on defence services amounted to about Rs. 45½ crores in the pre-War year 1936-37. Defence expenditure underwent very large expansion during the Second World War, but even after the establishment of peace no substantial reduction was made. In 1954-55, the net expenditure on defence services amounted to Rs. 201·34 crores and Defence Capital outlay at Rs. 8·46 crores. In the budget for 1956-57, the net military expenditure from revenue has been estimated at Rs. 218·80 crores and the capital outlay at Rs. 26·30 crores.

Need for retrenchment.

The present level of defence expenditure puts a heavy strain on Indian economy. It is true that many factors have contributed to this heavy cost of Indian defence, *viz.*, modernising and re-equipping the defence services, guarding a precarious and extensive frontier arising out of the partition of the country, etc. In any case defence expenditure should not be allowed to go seriously out of proportion to our revenues, in view of the immediate necessity of undertaking large beneficial projects. Therefore, the strictest economy should be

[1] Sir George White, Commander-in-Chief of India, said on one occasion: "We maintain that the Indian army does supply a great addition of military power to England, that a part of the British army is trained at the expense of India, and that the whole of the men passed into the reserve has been maintained out of the Indian revenues." It was argued that, if a part of the Indian forces were really intended to safeguard the interests of England in Asia outside India, England ought to bear the cost of maintenance. India fought the wars of England in the past both with her blood and her treasure, and she had the right to expect equitable treatment from England in return.

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observed both in respect of recurring and capital expenditure in all the departments of defence.[1]

Civil Administration.

The next head is that of Civil Administration. Before World War II expenditure on this account was rather small. But during the War, the expenditure increased about five times. In order to cope with the situation generated by the war, many new departments, such as food, supply, etc., were created and in place of one department two departments were set up. The administrative paraphernalia of the then existing departments was also expanded. The prices of the goods which the Government departments had to purchase were much higher. But even after the war, the expenditure did not show any signs of diminution. The partition of the country created additional difficulties. A new department, under the name of Relief and Rehabilitation, was set up to cope with the problem of refugees who migrated from Pakistan to India on a mass scale. The change in the status of India from one of subjection to one of independence also necessitated an increase in expenditure. The External Affairs department began to devour a large share of the revenue of the Government.

Great increase.

Scope for economy.

In response to the insistent public demand for economy, the Government appointed an Economy Committee which made certain recommendations for bringing about substantial reduction in expenditure, but the expenditure continued to rise. Before the war the expenditure on Civil Administration amounted, on an average, to Rs. 11 crores a year. During the war the expenditure rose year by year to a very high figure. In 1954-55, it amounted to Rs. 75·11 crores, but in the budget for 1956-57, it has been estimated at Rs. 135·91 crores. Drastic steps must be taken to reduce expenditure under this head.

Irrigation.

Under the head 'Irrigation' the expenditure from revenue, in addition to capital expenditure, amounted to Rs. 38 lakhs in 1954-55. In the budget for 1956-57, it has been estimated at Rs. 4·76 lakhs.

Currency and Mint.

Under the head 'Currency and Mint', Rs. 3·22 crores was provided in 1954-55 and in the budget for 1956-57, Rs. 3·76 crores has been estimated.

Civil Works.

The expenditure on Civil Works and Miscellaneous Public

[1] The League of Nations once recommended that the military expenditure of a nation should not exceed 20 per cent of its revenue.

Improvements amounted to Rs. 13·44 crores in 1954-55 while the estimated expenditure for 1956-57 is Rs. 15·90 crores.

Miscellaneous charges.

In pre-war days, the Miscellaneous Charges included Territorial and Political Pensions, Superannuation Allowances and Pensions, Stationery and Printing etc. Recently, due to changes of various kinds, these items have lost their importance to some extent. At the present time, this head includes expenditure on refugees, subsidy on foodgrains, pre-partition payments and some other items on expenditure. Miscellaneous expenditure was Rs. 29·86 crores in 1954-55 and the estimated expenditure for 1956-57 is Rs. 60·48 crores.

Adjustment between Centre and States.

Contributions to, and Miscellaneous Adjustments between the Union and State governments, amounted to Rs. 29·79 crores in 1954-55, and Rs. 37·99 crores has been provided in the budget for 1956-57.

Extra-ordinary items.

The expenditure on extraordinary items was Rs. 15·25 crores in 1954-55, but a sum of Rs. 14·70 crores has been estimated in the budget for 1956-57.

Expenditure excessive curtailment urgently needed.

A careful examination of the expenditure of India, both military and civil, reveals the fact that it is excessive and needs substantial reduction. The only two alternatives to curtailment of expenditure are additional taxation and definite financing. Both these representations are open to serious objections. Increased taxation is sure to impose additional burden on the community and create discontent.

Deficit Budgetting.

Deficit budgeting is justifiable only in times of depression, when large measures of public utility are undertaken by the state in order to help recovery. But during a period of inflation deficit budgeting is not only undesirable but positively dangerous.

Dr. Matthai's view.

It is significant that Dr. John Matthai, immediately after relinquishing the office of Finance Minister, referred in the course of a public statement to the extravagance in the Central Government expenditure which he had been unable to control. He said that Ministers were unwilling to observe economy. The experience of Sri Deshmukh was not very different.

Spending departments averse to Treasury control.

The need for economy has been repeatedly urged by the legislature and the Public Accounts Committee for a long time past and in recent years also by the Estimates Committee, but no adequate steps have so far been taken to give effect

to this demand. On the other hand, there is a growing tendency on the part of the spending departments to do away with the existing treasury control altogether.[1]

Solution. The real solution of the present difficulties can be found if economy is accepted as their watchword by the Ministers and the top-ranking officers of the Government. Economy, however, should be of the proper sort and retrenchment should be in the right directions. All wasteful expenditure should be eliminated. But it would be false economy to curtail expenditure on social services of a nation-building character. None of the schemes which have been initiated for increasing food and essential industries and fighting inflation should be curtailed, postponed or abandoned. Nor should economy be secured in central finance by starving the State Governments. Salaries should be reduced only in the higher grades of the public services and all unwanted posts should be abolished in the interest not only of economy but also of efficiency.

6. POST-WAR CENTRAL BUDGETS

Rowlands's budget, 1946. The first peace-time budget was presented by Sir Archibald Rowlands on 28th February, 1946. With the cessation of the war, the feeling that the burden of taxation levied during the war was too heavy for the country to bear and that the high level of taxation was destroying the incentive to saving and investment began to find expression in the Press. The budget for 1946-47, therefore, in response to this growing public sentiment, made substantial concessions to industry and moderate income groups. The Excess Profits Tax was withdrawn and there was granted a considerable reduction in super-tax and income-tax payable by companies. As a result of these tax reliefs, the revised estimates for 1946-47 left uncovered a deficit of Rs. 45·29 crores on the revenue account, revenue being Rs. 336·19 crores and expenditure, Rs. 381·48 crores. If the receipts and expenditures on the capital account were included, the total deficit would be Rs. 80 crores. Sir Archibald was

[1] The daily papers published some time ago the news that a serious difference of opinion arose between the Prime Minister and the Finance Minister on this question as the result of which Sri Deshmukh tendered his resignation. He, however, was persuaded to withdraw his resignation subsequently.

a well-intentioned man; perhaps he was a little too hasty in his policy of giving tax reliefs and probably it would have been better if he had exercised greater moderation in carrying out that policy. But it can hardly be denied that Sir Archibald's budget showed an intelligent awareness of the limits which direct taxation had reached in the country.

Liaquat Ali's budget, 1947.

Janab Liaquat Ali Khan, presenting his budget in 1947, imposed a Business Profits Tax and a Capital Gains Tax, doubled the rate of Corporation Tax, and introduced a steep progression in the scale of super-tax. With all this large imposition of additional direct taxation, the budget estimates placed the revenue deficit at Rs. 16·96 crores. In the capital budget there was a substantial deficit to the tune of Rs. 133·41 crores, chiefly because the Government loan programme could not be carried out. Liaquat Ali's taxation measures proved disastrous to India's economy, upsetting as they did the stimulating effect of the previous budget and striking a severe blow at industrial development. His budget was characterised in well-informed circles as mischievous for it undermined the confidence of the business community, while it did not possess even the fiscal justification of balancing receipts and expenditure.

S. Chetty's budget, 1948.

Next year, when Sri Sanmukham Chetty presented his budget for 1948-49, the chief problem for him was how to restore confidence to the capital market which had received a rude shock as a result of the various taxation measures introduced by his predecessor. He, therefore, introduced a number of changes in the field of direct taxation which were calculated to give an incentive to saving and investment. The deficit in the budget estimates for 1948-49 was placed at Rs. 2·14 crores, but, as the result of the year's working, the deficit in the revised budget was found to be even smaller, *viz.*, Rs. 1·55 crores. This nominal deficit, which occurred in spite of the appearance of two unforeseen factors, namely, the military operations in Kashmir and the relief and rehabilitation of refugees, would have been of no consequence, but the capital section of the revised estimates of 1948-49 showed a large expenditure. The little effort made in the revenue budget to moderate the inflationary bias was nullified by the unbalance in the capital budget.

Matthai's first budget, 1949.

In framing the budget estimates for 1949-50 the Finance Minister, Dr. John Matthai, had principally two objects in view. On the one hand, he aimed at keeping the inflationary forces under check, and on the other, he wished to devise measures for the revival of confidence in the investment market. On the then existing level of taxation, the estimated revenue was Rs. 307·74 crores, whereas the expenditure charged to revenue was Rs. 322·53 crores. In the context of the inflationary conditions in the country, Dr. Matthai did not think it advisable to leave the deficit uncovered.

This, in his opinion, necessitated the imposition of new taxes. But, at the same time, in order to create a situation favourable for saving and investment, he considered some relief in direct taxation urgently necessary. Therefore, he granted a number of reliefs in the field of direct taxation, and to cover the increased gap he relied mainly upon central excises, the rates of many of which were revised in the upward direction and fresh impositions were made. He ignored the sufferings of poor people in reviving the much-hated cotton excise duty. This revision of the taxation measures was designed not merely to wipe out the deficit but also to leave the Finance Minister with a small surplus. The net position in the budget estimates for 1949-50 may be summed up thus: Final estimated revenue, Rs. 323·02 crores; estimated expenditure, Rs. 322·53 crores; estimated surplus, Rs. 49 lakhs. This meagre surplus, on the revenue account, must be set off against the uncovered deficit of Rs. 134·1 crores on the capital account. The total budget estimates of 1949-50 were unbalanced to the extent of Rs. 133·61 crores.

The Finance Minister's argument that the excise duties would mop up excess purchasing power in the hands of a section of the public and thus would check inflation, was wholly fallacious and most unconvincing. As was rightly pointed out, "it is paradoxical to maintain that such type of curtailment of consumption is a fight against inflation. To fight inflation by increasing prices is indeed self-contradictory."[1] The various concessions granted in tax-relief did not go far enough to stimulate the investment market. Thus the

[1] "Studies in War Economics", p. 91. (Oxford University Institute of Statistics).

budget for 1949-50 failed to promote either of the objectives it intended to achieve.

In presenting his second budget in 1950 Dr. Matthai, at the very outset, pointed out that the figures for 1950-51 were not strictly comparable with those of 1949-50, because, as a result of federal financial integration, the estimates for 1950-51 included the revenue and expenditure under central heads of the former Indian States and provision for payments, such as the privy purses or grants incidental to the integration. **Matthai's second budget, 1950.**

In the budget estimates for 1950-51, as a surplus of Rs. 9·62 crores was anticipated at the then existing level of taxation, some concessions were made in taxation. The Business Profits Tax was abolished. There was reduction in the income-tax paid by the companies in order to help them to plough back more of their profits into their business. Relief was granted to the middle class by reducing the tax payable and by raising the exemption limit. No substantial changes were, however, made in the field of indirect taxation ; but some reductions in rates were granted in respect of local letters and postcards, and slight decreases in the charges for telegrams and telephone trunk calls. **Tax remission.**

On the expenditure side, the budget provided for Rs. 168·01 crores for defence which represented 50 per cent. of the total expenditure of the Centre. Civil expenditure estimate for 1950-51 was Rs. 169·87 crores, of which Rs. 26·18 crores was due to the federal financial integration of the territories which were formerly called Indian States and Rs. 30·34 crores to such extraordinary items as relief and rehabilitation of displaced persons, food subsidies, election expenses and reparation payments. In this budget the total revenue was placed at Rs. 399·19 crores and the total expenditure at Rs. 337·88 crores. The Select Committee, to which the budget was referred, made some slight modifications. **Expenditure.**

The budget for 1950-51 was a 'colourless' one as the proposals contained therein did not introduce any new principles. A budget surplus was, indeed, shown, but at the cost of upsetting the State budgets, because grants to the States were greatly reduced. Inflation, which had always been considered by the public as the most urgent problem, was not tackled to any extent. *Criticism.*

Sri Deshmukh's first budget, 1951-52.

Sri C. D. Deshmukh, presenting his first budget, referred to the strain on the country's economy reflected in the rising level of prices and a threat of inflation aggravated by the natural calamities like earthquake, floods and a failure of the monsoon which made the year 1950-51 one of great anxiety.

The Finance Minister estimated the total revenue for 1951-52, at the then existing level of taxation, at Rs. 369·89 crores and the total expenditure at Rs. 375·43 crores leaving a deficit of Rs. 5·54 crores on the revenue account. The revenue deficit might have been met by drawing upon cash balances. He estimated the deficit on the capital budget at Rs. 78 crores. Sri Deshmukh's predecessors had in the past tried to meet only the deficit in the revenue budget by means of additional taxation, but he was of the opinion that the Government ought to aim at a surplus budget taking the revenue and Capital budget together. This was an innovation. He expressed the view that the substantial deficit of Rs. 83 crores could not be left wholly uncovered. He therefore proposed that half the deficit should be met by raising additional resources and the balance met from the accumulated cash balances of the Government. It may be noted that during the three and a half years after Partition, Government cash balances had been run down by Rs. 175 crores to Rs. 95 crores at the end of 1950-51.

Cash balance.

Direct taxation proposals.

In the field of direct taxation his first proposal was to raise the rate of corporation tax from two and half annas to two and three quarter annas. His second proposal was to levy a surcharge of 5 per cent. on the rates of income tax and super-tax other than corporation tax, the entire proceeds accruing to the centre.

Indirect taxation.

In the field of indirect taxation his first proposal was to levy an enhanced surcharge of 5 per cent. on items of the import tariff which were not subject to specific agreements. He also proposed to raise the surcharge on ale, beer and spirits from 100 per cent. to 150 per cent. He further proposed to rationalise the import duties on kerosene and motor spirit. As regards export duties two changes were proposed, namely, a duty of Rs. 80 per ton on groundnut kernel and a 10 per cent *ad valorem* duty on exports of coarse and medium cloth. Turning to Union Excises, the Finance Minister said that the duty on motor spirit and kerosene would be raised by 5 per

cent. so as to equalise the duties of customs and excise. His next proposal related to tobacco. In addition to the leaf duty, duties on manufacturing biris and snuff were levied. He also proposed a small surcharge on cigarettes. His last proposal was to levy a sales tax in Delhi.

Net effect. The net effect of the above proposals was expected to be an increase in revenue by Rs. 31·15 crores, converting the revenue deficit of Rs. 5·54 crores into a revenue surplus of Rs. 25·61 crores. This surplus would reduce the overall budget deficit to Rs. 52·37 crores and leave a closing balance of Rs. 43·05 crores. In concluding his speech the Finance Minister expressed the view that he had no doubt about the inherent strength of the country's financial position and that he had every confidence in the ability of the people to sustain and support the Government.

Sri Deshmukh's second budget, 1952-53. In February 1952, an interim budget was placed before the Provisional Parliament by the Finance Minister. At the same time a White Paper was issued giving relevent figures about the budget. The interim budget provided for a revenue of Rs. 424·98 crores, and an expenditure of Rs. 406·25 crores met from revenue leaving a surplus of Rs. 18·73 crores. The Finance Minister mentioned that this surplus would rise to Rs. 43·73 crores owing to the withdrawal of subsidies on food grains, for which a provision of Rs. 25 crores had been made in the budget. This budget in its final shape was placed in May 1952, before the first Parliament elected under the Constitution. The provisions of the budget were of a non-controversial character. He informed Parliament that attempts were being made to enforce economy both in Defence expenditure and in Civil expenditure. He said further that he looked forward to the workings of the Public Accounts and Estimates Committees in securing that the moneys authorised to be spent by Parliament were utilised to the best possible advantage and without avoidable waste. The Finance Minister estimated the total revenue for 1952-53 at Rs. 404·98 crores and the expenditure met from revenue at Rs. 401·25 crores leaving a surplus of Rs. 3·73 crores on revenue account. The capital budget was expected to show a deficit of Rs. 79·33 crores thus there would be an overall deficit of Rs. 75·6 crores.

The Finance Minister, however, did not propose to make

any changes in taxation. He observed that at the end of the budget year the Government's cash balances would have dropped to approximately Rs. 83 crores, a drop of about Rs. 200 crores from the accumulated cash balances immediately after Partition. The bulk of this money had been spent on essential purposes and on the development of the country.

Referring to the Planning Commission Sri Deshmukh remarked that this body had drawn up a realistic Plan which would enable India to take a definite step forward in the realisation of the larger and fuller life. He mentioned that assistance had been obtained from abroad through the U.S. Technical Co-operation Agreement, the Ford Foundation and the Colombo Plan, but he emphasised that India's future would depend on her own efforts. The Finance Minister had no doubt in his mind that the realisation that the people of his country were doing the utmost in their power to help themselves would widen the flow of foreign assistance.

Sri Deshmukh's third budget, 1953-54.

Sri Deshmukh's third budget was presented before Parliament on the 27th February, 1953. Referring to the report of the Finance Commission he observed that the net effect of its recommendations was to transfer, on an average a sum of the order of Rs. 21 crores a year more than what had been made over annually to the States until then by way of devolution of revenue and grants-in-aid. He estimated the revenue for 1953-54 at Rs. 437·76 crores and the expenditure met from revenue at Rs. 438·81 crores, leaving a revenue deficit of Rs. 1·05 crores. Expenditure on Defence Services was placed at Rs. 199·84 crores and Civil expenditure at Rs. 238·97 crores. The budget made a provision of Rs. 79 crores for capital expenditure.

Reliefs in taxation.

He started by dealing with reliefs in taxation. His first proposal was to reduce the export duty on jute sacking and his second proposal was to raise the exemption limit for personal income tax from Rs. 3,600 to Rs. 4,200 for individuals and from Rs. 7,200 to Rs. 8,400 for Hindu undivided families. The Finance Minister observed that the effect of these two changes was to raise the deficit of Rs. 1·05 crores to Rs. 4·95 crores and proposed to cover this deficit by certain readjustments in the import duties and Postal rates. He proposed to

enhance the import duties on certain semi-luxury items, betel nut, and to reduce the duties on penicillin, antibiotics and sulpha drugs. He also proposed to do away with *ad valorem* excise duties on fine and super fine cloths and to prescribe absolute specific duties. Super fine cloths would be charged a duty of 3 as. 3 pies a yard and fine cloths a duty of 1 a. 3 pies a yard.

Postal rates increased.

In view of the fact that the postal department was working at a loss during the last few years, the Finance Minister proposed to increase the scale of fees for parcels, packets, registration and insurance. He observed that these changes would leave a nominal surplus on revenue account. Sri Deshmukh mentioned that certain changes would be made in the administration of Income-tax Act. He concluded his speech by saying that the Government had done its part in implementing the Five-Year Plan.

Sri Deshmukh's fourth budget, 1954-55.

Sri Deshmukh presented his fourth Budget before Parliament on the 27th February, 1954. The Finance Minister estimated the revenue for 1954-55 at Rs. 441·03 crores and the expenditure at Rs. 467·09 crores at the then existing level of taxation. He estimated the Defence expenditure at Rs. 205·62 crores and the Civil expenditure at Rs. 261·47 crores. The increase in Civil expenditure by Rs. 30·5 crores over the previous year would be accounted for by increased developmental expenditure. The provision for capital expenditure in the budget was considerably increased and put at Rs. 145·75 crores. Sri Deshmukh observed that the capital expenditure connected with the Five-Year Plan was bound to be larger in the next two years than in the first three years.

Deficit financing.

The Finance Minister pointed out that during 1954-55 Government would have to find Rs. 26·06 crores for meeting revenue deficit, Rs. 395 crores for financing capital outlay and assisting the State Governments, Local bodies, etc., for financing their development schemes, and Rs. 53 crores for the payment of the matured debt. Against this he hoped to raise Rs. 75 crores by way of internal loans. Foreign assistance and dollar loan might bring in Rs. 48 crores and small savings Rs. 45 crores. Other miscellaneous debt and remittance transactions would bring in Rs. 56 crores. This would leave a gap of Rs. 250 crores in the available resources to balance the

budget. As the cash balance would just provide the necessary till money and would not be drawn down any further, the whole of this gap would have to be made up by the issue of Treasury Bills.

Sri Deshmukh then dealt with "the wisdom of launching upon deficit financing on this scale". He justified his stand by observing that the inflationary stress was now over and there were signs that the high level of production attained could not be sustained without some increase in money supply. He further observed that deficit financing, subject to safe-guards, had a definite part to play in bringing into use the unutilised resources in the system. He expected that with domestic food production at a satisfactory level and the outlook for imports from abroad better, the budgetary deficit envisaged would prove reflationary rather than inflationary. The latest figure for estimated deficit financing over the Plan period was given by Sri Deshmukh at Rs. 890 crores, of which Rs. 495·5 crores had already been undertaken and the balance of Rs. 395 crores remained to be completed by 1955-56. This figure of Rs. 890 crores, said the Finance Minister, was composed of Rs. 290 crores deficit financing allowed for in the original Plan and Rs. 600 crores representing India's new difficulties. He then made an appeal to the States for greater efforts in raising additional resources.

Justification.

Tax proposals.

The Finance Minister's first taxation proposal was to increase the preferential import duty on betel nuts by 6½ as per lb. He also proposed certain changes in import duties on other articles and announced the abolition of the import duties on raw cotton and on certain categories of steel. With regard to excise duties Sri Deshmukh proposed to raise the duty on super-fine cotton cloth by 6 pies per yard and the duty on other varieties by 3 pies per yard. His next proposal was to make levy of an excise duty of 1 anna and 6 pies per yard and an additional levy of 3 pies per yard on artificial silk fabrics. Sri Deshmukh also proposed to levy moderate duties on cement, soap and footwear in order to broad-base the excise duties. The net effect of these proposals would be to reduce the revenue deficit to Rs. 14·21 crores which the Finance Minister proposed to leave uncovered. While considering the Finance Bill Sri Deshmukh announced some

relief in respect of the excise duties on footwear, soap and artificial silk fabrics which he had proposed in his original budget. The Finance Minister concluded his budget speech by a brief review of India's achievements during the post-independence period observing that the country's economy had been strengthened, inflationary stresses eliminated and production expanded.

Criticism.

The budget for 1954-55 was a development budget and it provided for a very large expenditure. The Finance Minister's proposals to meet this expenditure consisted of two main parts, namely, the imposition of excise duties and deficit financing. Both these parts were subjected to severe criticism in Parliament as well as outside. The additions to the levy of excise duties which affected the essential necessaries of life like cloth and washing soap was condemned on the ground that it would increase the poor man's burden.

On the question of deficit financing extreme views were expressed by the non-official members of Parliament and the politicians of the country on the one side and the official bloc and their supporters on the other. It was urged by some of the critics that deficit financing of the size indicated in the Budget would involve grave risks and would constitute a serious menace to the economy of India. But the official view was that no risk was involved and that the proposal was warranted by the economic and financial circumstances of the country. An unprejudiced view would be that the amount of deficit financing was a large one, but it would be justifiable if proper safeguards were adopted in the spending of the amount and adequate steps were taken to secure substantial resources from within as well as from abroad.

Taxation Enquiry Commission's Report.

During the year 1954-55 the Report of the Taxation Enquiry Commission was published. The Commission stressed the need to widen the role of taxation and borrowing for the implementation of the development programme of the public sector, and pointed to the urgency for the maximum possible restraint on consumption by all classes, more particularly by the higher income groups. The Commission, therefore, recommended a deepening as well as a widening of the tax structure. To achieve this end, extension of commodity taxation as well as increases in direct taxation were regarded as necessary.

The next year's budget took into account these recommendations.

Deshmukh's fifth budget, 1955-56.

Sri Deshmukh's fifth budget estimates (for 1955-56) placed revenue at Rs. 462 crores, and expenditure at Rs. 492 crores, leaving a deficit of Rs. 30 crores. Revenue and expenditure were both estimated to go up, the former by Rs. 18 crores and the latter by Rs. 43 crores as compared to the revised estimates for 1954-55. On the revenue side, an increase of Rs. 20 crores was anticipated under union excise duties and a fall of Rs. 15 crores under customs. On the expenditure side, development outlay showed the largest increase (Rs. 29 crores).

Direct and indirect tax proposals.

The revenue deficit of Rs. 30 crores was expected to be reduced to Rs. 8·5 crores by proposals involving both an upward revision in rates of direct and indirect taxation as well as an extension of their coverage. The proposals were subsequently modified and the anticipated increase in revenue from tax changes was reduced from Rs. 21·7 crores to Rs. 12·8 crores on account of concessions in regard to excise duties. The revenue deficit for 1955-56 was, therefore, then placed at Rs. 17 crores. The changes in commodity and income taxation as finally embodied in the Finance Act 1955, represented the first step in instituting reforms in line with the recommendations of the Taxation Enquiry Commission. Excise duties, custom duties and taxes on income were, in general, enhanced with certain reliefs in some cases.

Capital budget.

Capital receipts in the budget for 1955-56 were estimated at Rs. 668 crores, inclusive of the net increase in receipts (Rs. 340 crores) under Treasury bills. Receipts from fresh domestic borrowings were placed at Rs. 120 crores, from small savings at Rs. 52 crores and from foreign aids (loans and grants) at Rs. 74 crores. The net withdrawal (Rs. 7 crores) from Railway funds was expected to be half the previous year's.

On the disbursements side, substantial increases were shown in 1954-55 under advances to states, including advances from the Special Development Fund and under capital outlay. The increase in the latter was mainly due to a worsening by Rs. 62 crores in the net position under Government trading schemes. In 1955-56, loans and advances to states (Rs. 290 crores), primarily for development purposes, disclosed a further

increase of Rs. 35 crores. The Central Government's capital outlay had also increased from Rs. 179 crores to Rs. 223 crores, mainly due to a larger outlay of Rs. 34 crores under Railways to enable them to carry out their five-year capital programme in full.

Deshmukh's sixth budget, 1956-57.

Sri C. D. Deshmukh presented his sixth budget in Parliament on 29th February 1956. He expressed satisfaction on the economic progress made during the year. The First Five Year Plan, Sri Deshmukh observed, had been fulfilled to a satisfactory extent and had laid sound foundations for a more massive superstructure in building up the country's economy.

The current year's revenue deficit of Rs. 17·35 crores was expected to be converted into a surplus of Rs. 12·31 crores, due largely to improvement in excise duties and saving in Defence expenditure. The overall deficit was estimated at Rs. 222 crores against Rs. 327 crores originally anticipated. He said that for the coming financial year, at the then existing levels of taxation, revenue was estimated at Rs. 493·6 crores and expenditure at Rs. 545·43 crores leaving a deficit of Rs. 51·83 crores on revenue account. The overall deficit for the next financial year was planned at Rs. 390 crores.

The economic conditions had, in his opinion, recorded considerable progress on all sides during 1955. The last remnants of food controls were removed during the year. Industrial production had, he observed, shown marked improvement.

Despite the satisfactory balance of payments position, the Finance Minister warned that the projected increase in the pace of development would strain heavily on the payments position in future. It was therefore necessary to make all-out efforts to encourage export industries and otherwise to save or earn foreign exchange. In order to secure maximum economy in expenditure and avoid wastage of any sort, it was proposed to set up a special high-powered committee for organising a thorough investigation both at the Centre and in the States and also in the field of important projects.

Tax proposals.

As regards new proposals for taxation, Sri Deshmukh stressed the principle that current expenditure should, as far as possible, be met from current taxation and proposed to cover the gap on revenue account, if not wholly, at least substantially. New tax proposals, involving changes in both direct and

indirect taxes, were estimated to yield to the Centre an additional revenue of Rs. 34·15 crores. Taking into account certain minor concessions, granted subsequently, the revenue deficit was placed at Rs. 18 crores.

The changes in customs duty would not have any net effect on revenue. The new and increased excise duties would yield Rs. 25 crores. Changes in income tax would result in an additional revenue of Rs. 10 crores, of which the States' share would amount to Rs. 1·8 crores and changes in postal rates would yield Rs. 95 lakhs. In the result the central revenue would increase by Rs. 34·15 crores. The Finance Minister decided to leave the remaining Rs. 17·68 crores uncovered.

Capital Account.

On the Capital Account, receipts for 1956-57 were estimated at Rs. 704 crores inclusive of an internal loan of Rs. 100 crores, Rs. 70 crores under small savings, and foreign assistance of Rs. 85 crores inclusive of loan assistance of Rs. 28 crores from U.S.A., Rs. 10 crores from the U.S.S.R. and Rs. 1·5 crores from the International Bank.

Loans.

Disbursement.

Development.

On the disbursements side, Rs. 703 crores were estimated for 1956-57 in loans to States and capital outlay. The most significant increases were in respect of industrial development and railways. Excluding net receipts under Treasury bills the deficit on capital account was estimated at Rs. 338 crores.

Conclusion.

In the concluding portion of his speech the Finance Minister emphasised that additional taxation would be inseparable from a bolder plan of economic development. He also pointed out that the Taxation Enquiry Commission, while recommending new tax efforts, had in mind an order of expenditure on the plan amounting to Rs. 3,500 crores; but with the increase in the size of the Plan larger tax-effort would be necessary. He added that, to maintain the proportion of tax revenues to national income more or less constant, additional taxation of the order of Rs. 350 crores over the five year period would be necessary at the Centre and in the States.

Deficit financing.

As regards deficit financing the Finance Minister observed: "There is not, at the moment, any great slack left in the economy which would justify anything more than a reasonable amount of deficit financing. Up to a point deficit financing is not only permissible, but even desirable in a developing economy. Experts differ as to the permissible limit, but it

would be quite unrealistic to assume that deficit financing of this order can be maintained for any length of time without inviting inflation. The road to inflation is easy enough, but it opens flood gates which it would later be impossible to close. We are, infact, taking a measure of risk with the deficit financing proposed for 1956-57 and we shall have to watch its effects carefully and adjust subsequent programmes in the light of these effects."

Supplementary budget of India, November, 1956.

On November 30, 1956, the Union Finance Minister, Sri T. T. Krishnamachari, presented a supplementary budget to the Lok Sabha through two inter-connected Finance Bills, which incorporated a Capital Gains tax, increased rates of supertax on dividends, additional supertax on the undistributed profits of section 23-A non-investment companies, higher import and excise duties on selected articles, enhanced stamp duties on the bills of exchange and a provision for control over the depreciation and other reserves of companies. The proposals are expected to yield Rs. 16 crores per year. Some of the proposals will be given effect to by executive action. The proposals met with strong opposition in and outside Parliament. Special exception was taken to the proposal for levying taxes without Parliamentary sanction. The bills were, however, passed by the Lok Sabha on December 12, 1956.

7. STATE BUDGETS

Revenue Account.

A brief review of the financial positions of the States will be found interesting. Aggregate revenue and expenditure of Part A States showed continuous increase in the five year period 1951-52 to 1955-56, but the increase in expenditure was considerably larger. The increase in revenue was partly attributable to larger central assistance under the Finance Commission's Scheme, while the major part of the rise in expenditure was due to increased developmental expenditure.

The total development expenditure on revenue account was expected to increase from Rs. 152 crores in 1951-52 to Rs. 255 crores in 1955-56, that is by Rs. 103 crores over the quinquennium. The increases in expenditure were particularly marked under education, medical and public health, irrigation, and rural and community development projects. During the

same period, expenditure under non-development heads had gone up by Rs. 47 crores to Rs. 194 crores, with the largest increase under debt services.

Both revenue (Rs. 398 crores) and expenditure (Rs. 449 crores) in the estimates for 1955-56 were at a higher level than in the revised estimates for 1954-55; the net budgetary position deteriorated by Rs. 25 crores, reflecting a considerable increase in expenditure in the final year of the first plan. Only Madras proposed tax changes to yield Rs. 1·7 crores. West Bengal showed the largest deficit at Rs. 17 crores while Andhra, Assam, Madhya Pradesh, Madras, Orissa and Punjab combinedly accounted for a deficit of Rs. 14 crores. Bombay was the only state to expect a nominal surplus in the final year of the Plan period. All the States budgetted for increased spending under development head. Increases in non-development expenditure were partly offset by a decline in the provision made for expenditure on famine relief and certain other items. For 1955-56 all States, except Bihar, budgetted for higher revenue. The increase in receipts was mainly under non-tax heads.

Capital Account.

Despite the large increase in development outlays (from Rs. 80 crores in 1951-52 to Rs. 196 crores in 1955-56) the capital account showed a substantial improvement. This was due, in the main, to the increase in loans from the Centre. Net receipts in the five year period from market loans and State Trading amounted to Rs. 72 crores and Rs. 31 crores respectively.

The notable success of the States' borrowing programme was an important feature of 1955-56. Seven Part A States entered the market, five of them entering for a second time, their net borrowing amounting to Rs. 41 crores.

1956-57.

Aggregate revenue and expenditure of Part A States in 1956-57 were estimated at Rs. 426.1 crores and Rs. 488·9 crores respectively leaving a deficit of Rs. 62·8 crores. The increase in expenditure over 1955-56 was greater than the increase in revenue over the previous year. The deficit increased by Rs. 12·2 crores. Despite the large deficits, only a few states made specific proposals for additional taxation which were estimated to yield an aggregate additional revenue of over Rs. 10 crores.

Part B States

Part B States. Both total revenue and expenditure of Part B States on revenue account showed continuous increases during the Plan period, as in the case of Part A States. The increases in revenue were partly attributable to a rise in Central assistance while the rise in expenditure was mainly due to higher development outlays. The non-development expenditure of Part B States did not show any undue increase.

In the 1955-56 budget estimates, expenditure was Rs. 140 crores and revenue Rs. 124 crores. The combined revenue deficit was Rs. 16 crores in 1955-56. Except Madhya Bharat all the other states showed larger deficits. A substantial rise in development expenditure was noticed in all the states and was spread over the various categories of expenditure. On the revenue side, an increase of Rs. 10 crores was shown in non-tax revenue, mainly due to larger Central assistance but that was partly offset by a fall of Rs. 1 crore in total tax revenue.

Capital Account. Receipts and disbursements on Capital Account of Part B states which amounted to Rs. 32 crores and Rs. 63 crores, respectively in 1951-52 were estimated to show increases of Rs. 63 crores and Rs. 45 crores respectively, by the close of the plan period. A more or less even position was shown, despite an increase of Rs. 42 crores in development expenditure during the last two years of the Plan period, principally due to the substantial increase of Rs. 46 crores in (net) loans from the Centre. The increase in disbursements on Capital Account was almost entirely under development expenditure, which stepped up from Rs. 21 crores, in 1951-52 to Rs. 63 crores in 1955-56.

1956-57. Budget estimates for 1956-57 placed revenue at Rs. 128 crores and expenditure at Rs. 142 crores leaving a deficit of Rs. 14 crores. Development expenditure was expected to rise by Rs. 8 crores over the previous year. A part of the deficit was to be covered by additional taxation anticipated to yield Rs. 1½ crores.

In 1956-57, six Part B States proposed to float loans for an aggregate amount of Rs. 14·5 crores.

Part C States. The consolidated revenue account of the six Part C States reflected a deficit of Rs. 0·9 crores for 1955-56 (R.E.). Revenue and expenditure in 1955-56 were estimated to show increases

of Rs. 3 crores and Rs. 3·4 crores respectively over the levels in 1954-55. The increase in revenue was due to larger Central assistance, while the rise in expenditure was due to larger spending of development nature.

1956-57. The combined expenditure of six Part C States increased from Rs. 21·4 crores in 1955-56 to Rs. 23·6 crores in 1956-57. Total revenue increased from Rs. 20·8 crores to Rs. 22·6 crores. About half the increase in revenue was due to larger Central grants and contributions.

Agricultural Income-tax. As some of the State sources of revenue are important from the point of view of principle as well as of yield, a somewhat detailed discussion of the two most important among them is desirable. We shall take the agricultural income-tax first. As has already been pointed out the first and the second Income-Tax Acts which remained in force from 1860 to 1865 and from 1869 to 1873 respectively, taxed equally both agricultural and non-agricultural incomes. But when the income-tax was permanently adopted in the fiscal system of India in 1886 agricultural income was exempted from the operation of the tax. A long controversy raged over the question of the imposition of agricultural income-tax. The objection chiefly came from the landlords. The Government of India Act, 1935, empowered the Provincial Governments to impose a tax on agricultural income. Bihar was the first province under Provincial Autonomy to impose a tax on agricultural income in 1938-39. Assam followed Bihar a year later. In pursuance of the recommendations of the Floud Commission the Bengal Agricultural Income-Tax Act was passed in 1944. Madras, U.P. and Orissa introduced the agricultural income-tax soon afterwards, Most of the other States levied the tax later.

Agricultural income-tax in Bengal, as well as in Bihar and Assam, has been adopted on a low level of taxation. The exemption limit, specially in Bihar, is rather high. The number of assessees is very small, and the bulk of the yield is paid by the few rich landlords. The tea gardens in Assam pay nearly 95 per cent. of the revenue from this source. The yield of agricultural income-tax in West Bengal is not large.

The agricultural income-tax system leaves considerable room for improvement. The principle of graduation may be intro-

duced. The removal of differences in rates in the different States is worthy of consideration.

Next comes the sales tax. The Government of India Act, 1935 provided for a sales tax and this was taken advantage of by all the provinces. **Sales Tax.**

The Central Provinces levied a tax at the rate of 5 per cent. on the retail sale of motor spirits and lubricants in 1938. The Central Government contested the right of the Province and referred it to the Federal Court. The Federal Court gave the constitutional right to the provinces to impose sales taxes. Since then the general sales tax has been imposed in all the States with the exception of Jammu and Kashmir.

There are two types of general sales tax in India depending on the point or points of sale at which the tax is collected. Madras collects the tax at every point of sale in the chain of transactions between the manufacturer or producer and the final consumer with single point tax on some goods. This is called the multi-point sales tax. The West Bengal sales tax is a comprehensive tax, *i.e.,* a tax on the sale of goods in general with certain exceptions. In West Bengal the tax is imposed at one point only, the point of retail sale where goods pass on to the final consumer. This is called the single point sales tax. In Madras a registered dealer has the right to collect the tax from the buyer.

The other State taxes are based on either the Madras model or the West Bengal model with the important exception of Madhya Bharat and Bombay. The West Bengal model is followed by East Punjab, Bihar, Orissa, Madhya Pradesh, Assam, PEPSU, Delhi and Saurashtra ; and the Madras model by Mysore, Hyderabad, Travancore-Cochin and Uttar Pradesh. The Madhya Bharat sales tax is collected at a single point only, but unlike the West Bengal tax it is levied on sales by the manufacturer or importer as the case may be. Bombay tax, originally modelled on the West Bengal tax, adopted the Madras pattern in 1952. It did not however conform fully to the Madras model. In December 1953 the Bombay Legislature passed the two point Sales Tax Act according to which all intermediate sales between the first and the last stage would be exempt provided the purchasing dealer obtained a license and a certificate to the effect that the goods were to be sold

by him. There is a "special goods" sales tax, in addition, on specified goods at the first stage sale. Some goods are charged the sale tax at the last stage only.

Although the States in India have adopted either the Madras model or the West Bengal model, even among those who have the same model there are differences in the rates of tax, taxable quantum and exemption. Delhi and PEPSU alone have adopted the pure West Bengal model with a single general rate of 6 pies per rupee, the Bengal rate being 9 pies per rupee. Assam has a general rate of 6 pies and a higher rate on luxuries. Saurashtra has a general rate of 6 pies and a lower rate on some articles. Bihar, Orissa and Madhya Pradesh have three kinds of rates of tax, *viz.*, (1) a general rate of 6 pies for Bihar and Madhya Pradesh and 3 pies for Orissa ; (2) a higher rate not exceeding 1 anna in all of them ; (3) a lower rate on some articles. In Punjab and Madhya Bharat the rate is graded. The multi-point States such as Madras and U.P. impose a single point tax on a few articles only. Travancore-Cochin imposes a single point or two point tax on a few articles only ; Mysore imposes a single point tax plus the general tax on some articles and a single point tax on a few goods only. Hyderabad alone has a pure multi-point tax. General rate in all these States is 3 pies per rupee excepting Hyderabad where it is two pies per rupee. Madras, Hyderabad and Travancore-Cochin impose additional taxes on luxuries which are not uniform. Thus the States in India have a baffling lack of uniformity with regard to the rates of tax and also the kinds of rates of tax causing disparities in the burden of the tax.

As regards exemptions, there is at one extreme Madras with few exemptions and on the other West Bengal with the largest number of exemptions. All States excepting Madras exempt food with variations, in the articles included. But there is little uniformity of policy among the States regarding the exemption of necessities other than food, *e.g.*, cloth, fuel and essential raw materials of production.

The sales tax on goods entering into inter-State trade created a number of difficulties.

These difficulties led to the incorporation of Article 286 in the Constitution of India and its enforcement from April 1,

1951. This was followed by the passing of the Essential Supplies Act in 1952 in pursuance of Article 286 (3) of the Constitution. This Article has barred the States from levying sales tax on sales outside the State, sales in course of imports and exports, sales of goods in course of inter-State trade and sales of goods declared essential by the Essential Supplies Act. The Article 286 was however subjected to a variety of interpretations.

The legal controversy about the Article 286 was set at rest by the Supreme Court judgments on 30th March, 1953 and on the 8th May, 1953. According to the judgments the Article "prohibits taxation of sales or purchases involving inter-State elements by all except the State in which goods are delivered for the purpose of consumption therein in the wider sense." These judgments have created another difficulty.

In addition to the problem of sales tax on inter-State trade which has yet to be solved the other problems are the lack of uniformity of rates of tax and kinds of rates of tax, lack of a common mode of sales tax and lack of uniform policy as regards exemptions.

A Bill on inter-State sales tax was passed by Parliament in the winter session of 1956.[1]

Defects.

Whatever merits may be urged in favour of the sales tax it cannot be denied that it is an indirect tax and that its burden falls on the consumer. For a considerable period of time the people of India have been groaning under the load of high prices, and it is unfair to throw larger burdens on them. Besides, the sales tax, by raising prices, gives an impetus to the inflationary trend. Looked at from this point of view the sales tax is an undesirable tax. But as it is a highly productive source of revenue, it is not likely to be abandoned by any of the States. The evil features, namely, the differences in the rates and the different systems of imposition in the different States, should be removed by making the levy the function of the Centre, the proceeds being distributed to the States on the principle of origin.

Centralisation and uniformity desirable.

[1] A Central Sales Tax Bill was introduced in Parliament in December, 1956.

8. PUBLIC DEBT

History.

The nucleus of the public debt of India, namely, Rs. 107 crores was inherited from the East India Company. That amount steadily grew by successive additions. But between 1888 and 1907, the unproductive portion of the debt was steadily reduced. This policy was continued till the commencement of the First World War. Between 1914 and 1925, there was an addition of Rs. 462·42 crores to the public debt. This great increase was brought about, firstly, by the First World War, to the expenses of which India contributed directly Rs. 150 crores and various other sums in an indirect manner; and, secondly, by five successive post-war deficits, aggregating about 100 crores of rupees. With the increase in the amount of debt the interest charges also grew. From the year 1916-17, there was a large addition to the unproductive debt. In the later thirties, however, the unproductive debt was considerably decreased by a policy of debt redemption.

Sterling debt liquidation.

The Second World War brought about a fundamental change in the composition and magnitude of India's public debt. A huge amount of sterling balances began to accumulate in London as a result of (*i*) the payment made by the British Government in sterling to India for a share of the war expenditure incurred by India and for large purchases of raw materials and goods paid for by the Government of India, (*ii*) contributions made for defence modernisation and (*iii*) sterling receipts for sales of silver on behalf of the Government of India. A part of the accumulated sterling balances was utilised for the purpose of liquidating our foreign debt. At first the Reserve Bank of India purchased sterling non-terminable securities in the open market and transferred them to the Government of India. An equivalent amount of rupee debt was created and thus the sterling debt was cancelled. In February, 1940, a voluntary scheme of repatriation was undertaken. Since this did not prove sufficiently successful, a scheme of compulsory acquisition of sterling debt was adopted. The Government of India bought the required amount of sterling from the Reserve Bank of India and paid the foreign bond-holders at the current market price. The necessary amount of rupees was obtained by the issue of Rupee counterparts to the Reserve Bank and by Ways and Means

advances from the Bank. This Rupee debt initially held by the bank was subsequently transferred to home savers when demand in the market for these loans began to increase. The second compulsory scheme introduced in 1941 was responsible for the redemption of 3½ per cent. sterling stock and the cancellation of railway debentures. Thus, as a result of these schemes of repatriation, voluntary and compulsory, the total sterling loans in 1953-54 stood at Rs. 26·13 crores.

The public debt of the Government of India in 1955-56 increased by Rs. 273 crores to Rs. 3,312 crores. The net increase during the five year period 1951-56 amounted to Rs. 750 crores. Of the outstanding total as at the end of March 1956, internal obligations amounted to Rs. 3,171 crores and external debt to Rs. 141 crores. Total interest-bearing obligations were estimated to show a rise of Rs. 586 crores to Rs. 3,898 crores at the close of March 1957, mainly due to an expansion of Rs. 356 crores under floating debt.

The 3½ per cent National Plan Bonds (Second Series), 1965 were offered for subscription from July 1, 1955 and total subscriptions amounted to Rs. 103·68 crores of which the conversion part accounted for Rs. 57·95 crores.

Interest-yielding assets of the Government of India stood at Rs. 2,468 crores at the end of 1955-56 and constituted three-fourths of the total interest-bearing obligations. There were increases of Rs. 225 crores in loans to States, of Rs. 72 crores in capital advanced to Railways, of Rs. 15 crores in investment in commercial concerns. Interest-yielding assets are estimated to show a further sharp rise of Rs. 528 crores to Rs. 2,996 crores by the close of 1956-57. During 1955-56, net receipts from small savings recorded a 13 per cent rise; gross receipts and repayments totalled Rs. 197 crores and Rs. 135 crores, resulting in net collections of Rs. 62 crores. Total small savings collections during the five years 1951-52 to 1955-56 at Rs. 235 crores exceeded the original plan target by Rs. 10 crores. Of this increase, the shares of Post Office Savings Bank, National Savings Certificates and Treasury Saving Deposit Certificates were, respectively, Rs. 102 crores, Rs. 96 crores and Rs. 36 crores.

Permanent and floating debt.

The Public Debt of the Central Government is divided into two classes: (*i*) Permanent Debt, and (*ii*) Floating Debt. The former comprises Government securities issued from time to

time; the latter consists of temporary borrowings, such as treasury bills and Ways and Means advances from the Reserve Bank of India for not more than twelve months. Another classification of the Public Debt is into (*i*) Rupee Loans, (*ii*) Sterling Loans, and (*iii*) Dollar Loans. Besides the permanent and floating debts in India and in England, on each item of which the Government have to pay interest each year, there is usually a certain amount of loans outstanding on which no interest has to be paid, by reason of the fact that they represent unclaimed balances of old loans which had been notified for discharge and had ceased to bear interest from the due date of discharge.

Interest-bearing and non-interest bearing debt.

Loans or taxes.

The principles which should guide the Government in providing for any expenditure by means of loans may be laid down as follows: (*a*) the Government should meet all ordinary expenditure out of the ordinary revenues; (*b*) it should not place the burden on posterity for any improvements which tend to benefit the present generation; (*c*) when any measure is undertaken of which the benefit is likely to accrue to future generations, it would not be improper to finance such a measure partly, or even wholly, out of a loan; and (*d*) in case of a heavy and unexpected outlay, which cannot be met out of the ordinary revenues, and which would place an excessive burden on the people if it were met by enhanced taxation, it would be better to have recourse to a loan, provided that suitable measures are adopted for redemption. The view is also held by some authorities that the Government would be justified, at a time of acute economic depression, to help industry and trade by raising loans. As a general proposition, it may be laid down that it is advisable to keep the national debt down at as low a figure as possible, unless the interests of the country dictate a different policy.

It is a matter of regret that the Government of India has not yet brought forward a regular policy of a steady reduction in debt to be achieved by means of a Sinking Fund fed by part of a budget surplus.

PART II

MAINLY
CRITICAL AND CONSTRUCTIVE
[SOME ECONOMIC PROBLEMS]

CHAPTER XV

LAND REFORM

1. STATE-LANDLORDISM

As we have already noticed there was a tendency among Government officers during British Rule to regard the Government as the ultimate proprietor of all lands, and to consider the revenue received by the State from the people as in the nature of rent. But Baden-Powell, a great authority on the subject, said: "Nowhere and under no revenue system does the Government claim to take the unearned increment or the whole of what remains after the wages of labour or cost of cultivation and profits of capital have been accounted for."[1] Baden-Powell gave his final decision in the following sentence: "The land revenue cannot, then, be regarded as a rent, not even in the raiyatwari lands. . . . I should be inclined to regard the charge as more in the nature of a *tax* on agricultural incomes."

Tendency to regard Government as universal landlord.

Mr. Baden-Powell's view.

The Land Revenue a 'tax'.

Regarded from this standpoint, the Government is not the ultimate proprietor of all lands. Now, the question arises: Can we point to any class which has absolute proprietary rights in the land? Perhaps it would be safe to answer that there are hardly any absolute proprietors in India, but that there are various grades of limited proprietary rights, each of a series of persons having some of the characteristics of a landowner.

No absolute property in land.

The proprietary rights may be divided into five main classes:

Various grades of proprietary rights.

(*i*) The Government may be the direct owner.

(*ii*) The cultivator or landholder may be, for all practical purposes, considered as proprietor, paying revenue to the Government. This is the system which obtains in the raiyatwari tracts.

(*iii*) The Government may recognise one grade of proprietor between itself and the actual landholder. The most perfect example of this is found in the zemindar of Bengal.

[1] Baden-Powell, *Land Systems of British India*.

(*iv*) The Government may recognise two grades of proprietors between itself and the actual landholder. This form is found in cases where the overlord's right has not developed so far as to make him sole landlord and all others mere tenants.

(*v*) The Government may recognise certain sub-proprietary rights, *e.g. patni, dar-patni,* etc.

Land tenures in India are largely the result of changes and growths. It very often happened that one set of rights was superimposed upon another, and thus the various grades came into existence.

2. PERMANENT ZEMINDARI SETTLEMENTS

The early settlements.

During the early years of the East India Company's rule, the revenue settlement was made for very short periods, often for one year only. This system caused much inconvenience to the Government and great hardship to the people. The Directors of the Company realised the evils of the system, and in a letter to Lord Cornwallis they not only expressed their disapprobation of the frequent changes in the revenue settlements of Bengal, but condemned the endeavours which had been made to increase continually the land-tax. A remedy against famines, like the one of 1769-70 which carried off one-third of the population of Bengal and Bihar and turned large areas of cultivated land into wild jungle, was also greatly needed. Besides, the Government needed a steady source of income to carry on its wars in South India. Lord Cornwallis took up the idea of a permanent settlement which had been advocated by Philip Francis.

Decennial Settlement, 1789.

The Permanent Settlement introduced, 1793. Objects.

The Decennial Settlement was introduced in Bengal in 1789, which was declared permanent in 1793. It was extended to Banaras in 1795. In promulgating the measure, the Government had two objects in view: (1) the security of the revenue, and (2) the improvement of the land. The hope was entertained that if the land revenue were fixed in perpetuity, the landlord would have the greatest inducement to improve his estate in the knowledge that anything he could make from his estate over and above the land-tax would be his private property, and not subject to any imposition by the state. Further, it was expected that this act of generosity on the

part of the Government would induce the landowner to be generous towards his tenants.

Views of earlier officials.

The prevailing opinion of officials in the early years of the nineteenth century was that the measure had been attended with great success. They, therefore, recommended the extension of the measure to the Agra province. Even some years later, officials' view was the same, and they desired that the Parmanent Settlement should be extended to the whole of India. But some officers of the Government began gradually to entertain doubts as to the results of the system.

The Sepoy Mutiny and the famine of 1860-61 gave rise to a prolonged discussion on the desirability or otherwise of introducing a permanent settlement into the United Provinces of Agra and Oudh. Sir Charles Wood, then Secretary of State for India, was greatly impressed by the arguments in favour of a permanent settlement and definitely accepted the policy. His successors in office also followed his policy, and in 1867 orders were actually issued for concluding such a settlement in the United Provinces of Agra and Oudh. For financial reasons, however, the plan could not be carried out.

Change in official attitude.

Not long after this, the official view underwent a change. The later attitude of the Government towards the measure was clearly expressed in the Note on the Land Revenue Policy of the Indian Government, 1902, issued in reply to certain criticisms of R. C. Dutt. A part of the Note was in these terms: "The Government of India know of no ground whatever for the contention that Bengal has been saved from famine by the Permanent Settlement, a contention which appears to them to be disproved by history; and they are not, therefore, disposed to attach much value to predictions as to the benefits that might have ensued had a similar settlement been extended elsewhere." "Far from being generously treated by the zemindars the Bengal cultivator was rackrented, impoverished, and oppressed, so that the Government of India felt compelled to intervene on his behalf."

The experiment a failure.

Independent opinion.

Independent opinion was at this time divided in respect of this question. One view was that it had safeguarded the economic welfare of the people. The earlier generations of Indian statesmen, including R. C. Dutt,[1] favoured this view;

[1] R. C. Dutt, *Famines in India.*

but the later thinkers and leaders regarded the measure as a mistake. According to the second view, it has deprived the state of the unearned increment from the land, and has not conferred a proportionately large benefit on the great bulk of the people. Some people thought that it would have been an ideal measure if it had been introduced without the intervention of zemindars as middlemen. J. S. Mill wrote: "The measure proved a total failure as to the main effects which its well-meaning promoters expected from it."

J. S. Mill's view.

One good feature.

So much for the defects of the system; but it undeniably had one good feature. As J. S. Mill observed,[2] "In this ill-judged measure there was one redeeming point. The raiyats were reduced to the rank of tenants of the zemindar, but tenants with fixity of tenure. In the parts of India into which the British rule has been more recently introduced, the blunder has been avoided of endowing a useless body of great landlords with gifts from the public revenue; but along with the evil the good also has been left undone."

The defects of temporary settlement system.

Though the Permanent Settlement has many grave defects, the system of temporary settlements is not without its shortcomings. The latter not only involves expense and trouble, but the dislocation of business. It has, further, the tendency of checking the improvement of cultivation, and even of paralysing it by an uncertain and ever-increasing state demand. And the shorter the period for which settlements are made, the greater is the degree in which these evils appear. The only solution of the problem seems to be to make the settlements for fairly long periods, say, 25 years, so as to avoid the defects of both the extremes.

Practical solution: long-period settlements.

3. TENANCY LEGISLATION

Object of tenancy laws.

The object of the early tenancy laws of the Government was to protect the tenant against the effects of an unfair competition, and to secure to him the rights conferred by custom.

[2] James Mill, in his *History of India*, wrote: "Next after the sovereign the immediate cultivators had by far the greatest portion of interest in the soil. The generous resolution was adopted of sacrificing to the improvement of the country the proprietary rights of the sovereign. The motives to improvement which property gives, of which the power was justly appreciated, might have been bestowed upon those . . . from whom alone the principal improvements in agriculture must be derived, the immediate cultivator of the soil."

During the 19th century and the first three decades of the 20th century enactments were made by the Central Government and all the Provincial Governments to improve the condition of the tenants. The most notable of measures were the Bengal Rent Act of 1859, the Tenancy Act of 1885, the Madras Estate Land Acts of 1908 and 1938, the Bengal Tenancy Act of 1927.

Landlord and overlord rights grew up over, and often at the expense of, other rights in land. Origin of land rights.

After the advent of provincial autonomy, tenancy legislation was undertaken in all the provinces. But the condition of tenants did not improve to the desirable extent. A Land Revenue Commission was appointed in Bengal in 1938, with Sir Francis Floud as Chairman, to examine the land revenue system of the province, with special reference to the Permanent Settlement. The Commission submitted its Report in 1940.

4. FLOUD COMMISSION, 1938-40

The majority of the Commission, after pointing out the grave defects of the Permanent Settlement, definitely expressed themselves in favour of its abolition. They argued that whatever might be said in justification of the Permanent Settlement in 1793, it was no longer suited to the conditions of the present time. The majority also came to the conclusion that the Zamindari system had developed so many defects that it had ceased to serve the national interests. They maintained that the Permanent Settlement and the Zamindari system should be replaced by a Ryatwari system under which the Government would be brought into direct touch with the actual tillers of the soil. As the sole landlord the Government would be in a much stronger position than any private landlord for initiating various schemes of agricultural improvement. Majority Report.

The majority further recommended that the State should acquire the interests of all grades of tenure-holders. They suggested payment of compensation at a flat rate for all interests at 10 or 12 or 15 times the net profits. Compensation should, in their opinion, be paid preferably in cash, and failing that, in bonds redeemable after 60 years. The Commission also favoured the inclusion of fishery and mineral rights in

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the scheme of state acquisition. The imposition of an agricultural income tax, as a transitional measure, until the scheme of State acquisition was effected, was also recommended.

Notes of dissent.

Six members of the Commission submitted four minutes of dissent in which the Majority Report was severely criticised. State acquisition of the various rights in the land, they held, was a hazardous experiment, involving huge embarrassing financial commitments, while the financial gains were uncertain and negligible. They further contended that the Bengal raiyats were better off than the raiyats of the other provinces. The abolition of the Permanent Settlement was described as a measure which would be nothing short of a social revolution fraught with far-reaching consequences of a serious nature. The rate of compensation recommended was also condemned as inadequate and involving a degree of expropriation. They did not see any case for the purchase of fishery and mineral rights. The Majority Report aroused a great controversy in Bengal.

5. CONGRESS ATTITUDE

Congress Election Manifesto.

The Indian National Congress pledged itself to ameliorate the condition of the peasantry by reforming the land system. In the Election Manifesto of 1945 it was stated: "The reform of the land is urgently needed and the rights of intermediaries should be acquired on payment of equitable compensation."[1] In pursuance of the Congress Election Manifesto most of the States passed Zamindari Abolition Bills.

6. AFTER INDEPENDENCE

The problem of land reform had to be tackled by the Government of India within the framework of the Constitution and the fundamental rights guaranteed therein.[2] The First Five-Year Plan, which came into operation in April, 1951, included a scheme of land reform for the entire country. But even before this, legislation had been undertaken for the abolition of intermediaries in Bihar, Bombay, Madhya Pradesh, Madras, Uttar Pradesh, Hyderabad and Pepsu. Implementa-

[1] K. D. Malaviya, *Land Reforms in India.*
[2] *India, 1956.*

tion of the legislation in Uttar Pradesh and Bihar was, however, delayed because the Zamindars contested its validity in the law-courts.

Planning Commission's recommendation.

The main recommendations of the Planning Commission in regard to land reform were:

(*i*) the abolition of all intermediaries between the State and tillers;

(*ii*) tenancy reform to reduce rents and give tenants an opportunity to acquire permanent rights over the land by payment of fixed compensation, subject to the landlords' right to resume a certain area for his personal cultivation;

(*iii*) fixation of ceiling on holdings;

(*iv*) reorganisation of agriculture through consolidation of holdings and prevention of further fragmentation, and the development of co-operative village management and co-operative farming.

In pursuance of the Planning Commission's recommendations, a Central Committee for Land Reform was constituted by the Government of India in May 1953. The Committee, consisting of the Chairman and Members of the Planning Commission as well as the Minister for Home Affairs and States, guides the Land Reforms Wing of the Planning Commission in its examination of the land reform proposals of the State Governments.

Central Committee for Land Reform.

In May 1955, a Panel was appointed by the Planning Commission to review the progress of land reform in the country under the first Five Year Plan and to make recommendations in connection with the formulation of the land policy for the second Five Year Plan. The working groups of the Panel dealt with (*i*) tenancy reform, (*ii*) size of holdings, (*iii*) problems of agricultural reorganisation such as consolidation of holdings, land management, legislation, co-operative farming and co-operative village management and (*iv*) bhoodan. In September 1955, the tenancy committee of the Panel decided that labour, and not inheritance, should be the criterion in the determination of the ownership of land, thus accepting the principle of "land to the tiller."

Abolition of Intermediaries.

An important objective of the first Five-Year Plan, that is, the abolition of intermediaries, made good progress bringing large numbers of tenants in cultivating possession of land in direct contact with the State. Uncultivated lands have been acquired and are being administered directly by the State or through local agencies such as the village panchayats. As a result of this process, the share of the intermediaries, such as Zamindars, jagirdars, inamdars, etc., who formerly controlled about 43 per cent of the cultivated area of the country, has been reduced to about 8·5 per cent. The remaining intermediary rights are likely to be abolished within a short period.

The programme for the abolition of intermediaries was at various stages of implementation in the different States. With the exception of Jammu and Kashmir, compensation is being paid to the intermediaries, who have been divested of their rights. Towards the end of 1954, the total estimated expenditure on account of compensation was calculated at about Rs. 460 crores. Of this amount, the two States of Uttar Pradesh and Bihar accounted for nearly 70 per cent.

7. TENANCY REFORM

The main recommendations of the first Five-Year Plan on tenancy reform are: (*i*) reduction of rents, (*ii*) security of tenure, and (*iii*) grant of the right to tenants to purchase their holdings. The first Five Year Plan recommended that the maximum rent should not ordinarily exceed one-fourth or one-fifth of the gross produce. Most of the States have enacted legislation accordingly. In a few States, provision exists to enable the tenants to commute the rent payable in kind to a fixed money rent. In Uttar Pradesh and in Delhi, legislation has been passed to enable the existing cultivators to retain their lands and acquire ownership rights. The legislation also forbids forcible eviction of tenants who are in cultivating possession of land.

With minor variations, legislation has been enacted in Bombay and a few other States allowing the landlords to resume a limited area for personal cultivation. In the Punjab, however, the right of purchase has been conferred only on those

tenants who have held land continuously for 12 years. In the States of Madhya Pradesh, Madras and Mysore, the right of purchase has not been conferred on the tenants but the landlord's right of resumption has been restricted.

Security of Tenure.

In a large number of States, measures have been taken to ensure increased security of tenure to the tenants.. These measures ensure (*i*) temporary protection to tenants from eviction, (*ii*) a minimum period of tenure, (*iii*) fixity of tenure subject to eviction on prescribed grounds only, resumption by landlords being permitted up to a limited area in restricted cases.

In some parts of Madras, the Cultivating Tenants' Protection Act, 1954, affords protection to the cultivating tenants. In August 1955, the Madras Cultivating Tenants' Protection Act was passed for the settlement of agrarian disputes, enabling the agricultural operations to go on unhampered. In Andhra, the cultivators in certain inam lands were protected against eviction. In the Punjab, all cases of ejection were stayed under the Punjab Security of Land Tenures Act, 1953, till the end of April 1954. Subsequently, comprehensive tenancy legislation was enacted.

Period of lease.

In Madras (Tanjore and portions of South Arcot district) the minimum period of lease has been fixed at five years. The Mysore Tenancy Act, 1950, provides security of tenure for certain tenants for a period of five years. The Act is now being amended in order to extend the period to ten years.

Recently, a number of States have enacted legislation to provide for fixity of tenure, and to restrict the grounds on which landlords can eject tenants. In Assam, the Adhiars Protection and Regulation Act was amended recently to restrict the right of landlords to resume land from tenants for personal cultivation. In Bombay, the amending legislation was introduced in September 1955 to confer permanent rights on protected tenants and to ensure a minimum holding for the non-protected ones. In the Punjab, all tenants in non-resumed areas have been given permanent and heritable rights by amending the Punjab Security of Land Tenure Act. Even in the resumable areas, the tenant is not to be ejected from a minimum area of 5 standard acres. In Rajasthan, the general

body of tenants enjoy permanent, heritable and transferable rights.

Comprehensive legislation, namely, the Bombay Tenancy Act, was passed by the Bombay Legislature in September 1955 to implement the principle of "land to the tiller". It seeks to remove all intermediaries gradually and to make the tiller of the soil the occupant of land by April 1, 1957, thus bringing the cultivator into direct relations with the State.

In U.P. and Delhi, all the tenants and sub-tenants, with the exception of those suffering from disabilities, have been brought into direct relations with the State, without payment of compensation in the case of U.P. and by the payment of compensation varying from 20 to 40 times the land revenue in Delhi. In West Bengal, legislation provides for the acquisition of (*i*) the rent-receiving rights of raiyats and (*ii*) the land in excess of 33 acres which is cultivated by bargadars.

Ceilings on Holdings.

The Planning Commission has recommended that the States should work out detailed plans for fixing ceilings on holdings, keeping in view the agrarian problems in their respective areas. Before the commencement of the Plan period, legislation had been adopted in Uttar Pradesh for limiting the acquisition of land to 30 acres, and since 1951 similar measures have been adopted by many other States. In Jammu and Kashmir, a ceiling of $22\frac{3}{4}$ acres has been imposed with the provision that land in excess of this be transferred to the ownership of cultivating tenants without compensation. In West Bengal, the limit of 33 acres has been fixed with provision for State acquisition of rent-receiving interests above this limit. In the Punjab, the limit has been put at 30 standard acres (up to 60 ordinary acres) and in the case of displaced persons 50 acres (upto 100 ordinary acres). In Bihar, it has been decided to fix maximum of 30 acres of wet land for a family of 5 members, with the provision for an additional 5 acres for every additional member. In West Bengal, the ceiling is 25 acres, which an intermediary will be allowed to retain after the abolition of intermediaries, while in Assam the ceiling is 133 acres for proprietors and 50 acres for tenancy holders, with a provision for State acquisition of land from raiyats owning above 50 acres.

8. SUB-DIVISION AND FRAGMENTATION

The operation of the ancient laws of inheritance resulted in the sub-division and fragmentation of holdings to the detriment of agricultural production. It has been the object of the Planning Commission to restrain this tendency either on a voluntary or co-operative basis or by governmental persuasion. Measures to prevent further sub-division and fragmentation include restrictions on partition or transfer below specified limits. The Uttar Pradesh Government has fixed a minimum of 6½ acres as the limit. In Bombay, Punjab and Orissa, the legislation for the consolidation of holdings also empowers the State Government to limit the minimum size of holdings.

9. CONSOLIDATION OF HOLDINGS

The methods adopted in the different States for the consolidation of holdings vary considerably. Consolidation has been undertaken in Bombay, Madhya Pradesh, Punjab, U.P., and Jammu and Kashmir and a few other areas. The legislation in Madhya Pradesh and Jammu and Kashmir permit the Government to exercise partial compulsion on a minority of landholders when a specified number of persons in an area expresses a desire for the consolidation of holdings. In the districts of Muzaffarnagar and Sultanpur of Uttar Pradesh a scheme for compulsory consolidation of scattered holdings has been put into operation at an estimated cost of about Rs. 20 crore, to be borne by the beneficiaries themselves. This scheme is being extended to other parts of the State. Where consolidation has been actively undertaken, as in U.P., and the Punjab, it is handled by co-operative societies, while in Bombay, and to some extent in the Punjab consolidation schemes have been included in the States' Five Year Plan. Sub-letting has been prohibited in some States except in certain deserving cases. A negative check on sub-letting has been provided in some cases by conferring limited security of tenure on tenants who may be admitted in future. In many other States the Government has assumed the power to take over lands which remain uncultivated for more than a specified number of years and to make arrangements for their cultivation.

Census of Land Holdings.

In 1953, the Planning Commission asked the States to conduct a census of land holdings and cultivation. The census has been carried out in a number of States. In Assam, West Bengal, Jammu and Kashmir, Maṇipur and Tripura, where village records are incomplete, the Governments intend to carry out sample surveys.

10. CO-OPERATIVE FARMING

In the larger interests of agriculture, and in view of the potentialities of co-operative effort, the Planning Commission has recommended the voluntary grouping of small and middle-class owners into co-operative facilities. Another recommendation of the Commission is that newly reclaimed land as well as culturable waste land should be set apart for the settlement of groups of landless agricultural workers on co-operative lines. Co-operative farming societies have been formed on an experimental basis, in some States. The Programme Evaluation Organisation of the Planning Commission has undertaken comprehensive studies of the working of selected societies so as to work out an overall pattern for the formation of such societies on a much larger scale. Collective farming has also been undertaken in several States.

The ultimate solution of the land problem, as envisaged in the First Five-Year Plan, was co-operative village management. A special committee appointed by the Panel on Land Reforms, is examining the possibilities of furthering this objective. The idea is to have, at the village level, an authority which can carry out programmes of village development and also act as the agency for land management and land reform in the village.

11. THE BHOODAN MOVEMENT

The Bhoodan Movement.

The Bhoodan, or voluntary land gift movement, was conceived by Acharya Vinoba Bhave early in 1951, when he happened to be touring the Telengana district of Hyderabad State. There was agrarian unrest in the district caused by land hunger on the part of the cultivators. In appealing to the landlords for gifts of land he has been applying the Gandhian principle of peaceful persuasion.

Describing the aims of the movement, Acharya Vinoba Bhave says: "In a just and equitable order of society land

must belong to all. That is why we do not beg for gifts but demand a share to which the poor are rightly entitled." The main objective is to 'propagate the right thought by which social and economic maladjustments can be corrected without serious conflicts.' He describes the Bhoodan Movement as a kind of satyagraha or peaceful revolution.

From small beginnings in 1951, Acharya Bhave's movement has now been extended over the length and breadth of India. Collections of gifts till September 1955 totalled 40,14,485 acres. The total number of donors was 3,49,150. The land distributed amounted to 21,11,194 acres.

Implementation slow. Difficulties. It may be observed that, while there has been acceleration in the pace of land legislation, since Independence, the implementation of the reform measures has been rather slow on account of administrative difficulties and the heavy financial burden imposed on the States in paying compensation.

12. CONCLUDING REMARKS

Conclusion. It remains to be seen how far the legislative measures adopted during the last decade will go towards the extension and improvement of agriculture and the securing of happiness and prosperity to the cultivators who constitute more than two-thirds of the population of India. It is to be hoped that the Government will not enhance rents like a greedy landlord. It would be improper on the part of the authorities to resort to short-term settlement which would upset the normal activities of the cultivators and prove prejudicial to agricultural production. A huge burden will fall on the shoulders of the Central Government as well as the State Governments. A great deal will also depend upon the ability, integrity, wisdom, tolerance and goodwill which their officers will be able to bring to bear upon the administration of the Acts and the rules and regulations to be framed thereunder, as well as on the goodwill which these measures will evoke in the minds of the community as a whole.

CHAPTER XVI

FAMINES AND SCARCITIES

1. HISTORY

History of famines: Hindu period.

DURING the Hindu period of her history, India did not enjoy absolute immunity from famines. But judging from the infrequency of allusions to these calamities in the ancient Sanskrit works, as well as the testimony of foreign travellers,[1] it would not be unfair to make the assertion that famines were exceptional occurrences in Ancient India. When they did occur, adequate relief measures were undertaken by the State. Kautilya, in his *Arthasastra*, mentions the following among other remedial and relief measures: (*i*) remission of taxes, (*ii*) emigration, (*iii*) the granting of money and grain from state funds, (*iv*) construction of artificial lakes, tanks, wells, etc., and (*v*) the importation of grain from other places.[2]

Mahomedan Rule.

The historians of the Mahomedan period left records of several famines, four of which were very severe. The first occurred in 1343, when the well-meaning but half-insane Muhammad Tughlak was the sovereign of Northern India. The distress was of a most acute character, but the Sultan was not slow to organise relief measures on an extensive scale. During the reign of Akbar, "there was scarcity of rain throughout the whole of Hindustan, and a fearful famine raged continuously for three or four years." The Emperor ordered that alms should be distributed in all the cities; and Nawab Sheikh Farid Bokhari, "did all in his power to relieve the general distress of the people."[3] The fifth year of the reign of Shah Jehan witnessed one of the greatest famines recorded in history. It afflicted almost the whole of India, and, in spite of the vigorous measures of relief adopted by the Emperor, a prodigious mortality ensued. There was another great famine

[1] Megasthenes says: "Famine has never visited India and there has never been a general scarcity in the supply of nourishing food." McCrindle, *Ancient India as described by Megasthenes and Arrian*.

[2] Kautilya, *Arthasastra*, Bk. 4; chap. 3.

[3] Dowson, *History of India*.

in the reign of Aurangzeb, about which James Mill wrote: "The prudence of Aurangzeb, if his preceding actions will not permit us to call it his humanity, suggested to him the utmost activity of beneficence on this calamitous occasion."[1]

During the rule of the East India Company, India suffered, in one part or another, from twelve famines and four severe scarcities.[2] The first of these was the dreadful calamity of 1770, "by which more than a third of the inhabitants of Bengal were computed to have been destroyed."[2] Although signals of the impending disaster had been received in 1769, nothing had been done to check the famine, and even when distress became acute, no relief measures on an adequate scale were adopted.[2] In Madras, 1781 and 1782 were years of severe scarcity; and in 1784 a severe famine devastated the whole of Northern India. A drought in Madras and Hyderabad in 1791 was followed by an intense famine the next year. It was on this occasion that relief-works were first opened by the Madras Government for the support of the famine-stricken people. In 1802-03, a failure of rains led to famine in Bombay and scarcity in Madras, which were followed the next year by a widely extended famine in the North-Western Provinces and Oudh (now Uttar Pradesh). The measures adopted on this occasion consisted in making remissions of the revenue, in giving loans and advances to landowners in offering a bounty on all grain imported into Banaras, Allahabad, Kanpur and Fatehgarh. In 1806-07, there was a severe scarcity in some districts of Madras.

East India Company's Rule.
1770.
1784.
1792.
1802-03.

The next great famine was that of 1833, known as the 'Guntur famine'. It affected the northern districts of Madras, and parts of the Southern Mahratta country and of Mysore and Hyderabad. The severity of the calamity was not recognised by the Government till it was too late, with the result that 2 lakhs of persons died in Guntur out of a population of 5 lakhs. In 1837, there was a severe famine in Upper India. The mortality was great and the extremity of suffering endured by the people was such as to leave behind a widespread and lasting recollec-

1833.
1837.

[1] James Mill, *History of India*.
[2] The price of common rice rose from 40 seers per rupee to 3½ seers. In the plentiful year of 1714, coarse rice was sold at 120 seers the rupee, and wheat at 90 seers. *Vide* Col. Baird Smith's *Report*.

1854. tion of the horrors of the calamity. In 1854, a severe famine visited Northern Madras.

Direct British administration. 1860-61. After the transfer of the administration of India from the Company to the Crown, there were ten important famines, besides a large number of severe scarcities. The first famine occurred in 1860-61, the chief area affected being that between Delhi and Agra. This was the first occasion in British India on which poor-houses were used as a means of relief; and it was also the first time when the authorities thought fit to enquire into the causes, area and intensity of the famine, as well as the measures to be adopted to cope with distress. A
1865. drought in 1865 was followed the next year by a severe famine. The calamity fell with the greatest intensity on Orissa, hence its name, the 'Orissa famine'; but it also affected Madras, Northern Bengal, and Bihar. It was estimated that about a
1868. million persons died in Orissa alone. A year had hardly elapsed before Northern and Central India was visited by one of the most widespread and grievous famines on record. Action was taken by the Government to relieve distress, but the relief given was not commensurate with the magnitude of the distress, and there was considerable loss of life.

1873. In 1873, Bihar and the eastern districts of Uttar Pradesh were afflicted with a famine. The Bengal Government, however, took prompt action and carried out relief measures on a scale and with a thoroughness which had never been equalled before. The total cost of the relief measures amounted to
1876-78. nearly Rs. 10 crores. The great famine of 1876-78 was, in respect of the area and the population affected, as well as the duration and the intensity of the distress, the most grievous calamity experienced during the nineteenth century. It affected Madras, Bombay, Uttar Pradesh and the Punjab. The relief measures on this occasion were insufficient and imperfectly organised. The Government refused to recognise their responsibility for saving human lives.[1] Small wonder that a fearful mortality was the result of the adoption of such a policy!

[1] The Government declared with cynical calmness that "the task of saving life, irrespective of cost, is one which is beyond their power to undertake, and that in the interests of the distressed population itself, as well as of the taxpayers generally, the Government of India was bound to adopt precaution against indolence or imposition."

Between 1878 and 1896, there were two famines and five scarcities, all of them of a more or less local character. The great famine of 1896-97 affected almost every province, though in varying degrees of intensity, the population sorely afflicted being estimated at 34 millions. In addition to the opening of public works at various centres, gratuitous relief was given extensively, and in many parts of the country people were relieved in their own homes. The relief operations were conducted with a fair measure of success, except in the Central Provinces, where the death-rate rose very high. 1896-97.

Following closely upon this came another calamity of the severest type, namely, the famine of 1899-1900. The authorities failed and, in some cases, refused to open relief works in the early stages of the famine, and when they were opened such vast numbers came on them that the system almost completely broke down in many cases. A large number of famines and scarcities of a local character occurred between 1901 and 1941, those of 1906-07 and 1907-08 being the most important. 1899-1900. 1906-07. 1907-8.

As a result of the Montague-Chelmsford Reforms of 1919, the principal responsibility for the relief as well as for prevention of famines fell on Provincial Governments. Every province had to maintain a Famine Insurance Fund. In some cases, *e.g.*, irrigation and control of floods, inter-provincial co-operation was essential. Most of the fundamental causes of famines pointed out before could, however, be remedied by concerted action taken by the Central Government and the Provincial Governments. It should be remembered in this connection that the Central Government was still responsible for guiding India's fundamental economic policy and controlling banking, railways, currency, exchange, and tariffs. It was hoped that the transfer of political power to popular ministers in the provinces and in the centre would before long result in a scientific and planned drive against poverty, famine, and scarcity. This hope, however, was not realised. Responsibility of Provincial Governments. Famine Insurance Fund.

2. THE BENGAL FAMINE OF 1942-43

The crisis in Bengal which developed gradually into the Great Famine of 1943 began towards the end of the year 1942. The demand for food for the military forces and the civil employees of the Government as well as for the industrial

population in Calcutta and its neighbourhood grew immensely after the beginning of the War, but the supplies did not increase proportionately. The shortage of supplies became acute in Greater Calcutta early in 1943. Distress developed slowly but steadily in other parts of Bengal until the entire province was under the grip of a terrible famine which raged unabated until the harvesting of the *aman* crop in December, 1943. This great disaster was to a large extent a man-made famine, the like of which has rarely been witnessed anywhere in the world. A Commission, with Sir John Woodhead as its Chairman, was appointed in 1944 to investigate the causes and effects of the Famine and other relevant matters and to make recommendations for the prevention of such disasters in future.

Woodhead Commission.

Recommendations.

The recommendations of the Commission were summarised as follows:—

1. The economic level of the population previous to the famine was low in Bengal, as in the greater part of India. Agricultural production was not keeping pace with the growth of population. There was increasing pressure on land which was not relieved by compensatory growth in industry. A considerable section of the population was living on the margin of subsistence and was incapable of standing any severe economic stress. Parellel conditions prevailed in the health sphere; standards of nutrition were low and the epidemic diseases which caused high mortality during the famine were prevalent in normal times. There was no 'margin of safety' as regards either health or wealth. These underlying conditions, common indeed to many other parts of India, were favourable to the occurrence of famine accompanied by high mortality.

Background.

Basic causes.

2. Shortage in the supply of rice in 1943 was one of the basic causes of the famine. The main reason for this was the low yield of the *aman* crop reaped at the close of 1942. Another reason was that the stocks carried over from the previous year (1942) were also short. After the fall of Burma early in 1942, imports from that country ceased, but exports from Bengal to other areas in India, increased during the first half of the year. This also contributed to some extent to the smallness of the carry-over from 1942 to 1943. Again, during 1943 the loss of imports from Burma was only partially offset by increased imports from other parts of India. It appears probable that

the total supply during 1943 was not sufficient for the requirements of the province and that there was an absolute deficiency of the order of 3 weeks' requirements.

Failure of *aman* crop.

In the summer of 1942, that is, some months before the failure of the *aman* crop in Bengal, a situation had arisen in the rice markets of India, including those in Bengal, in which the normal trade machinery was beginning to fail to distribute supplies at reasonable prices. The failure of the *aman* crop at the end of 1942, in combination with the whole existing set of circumstances, made it inevitable that, in the absence of control the price of rice would rise to a level at which the poor would be unable to obtain their needs. It was necessary for the Bengal Government to undertake measures for controlling supplies and ensuring their distribution at prices at which the poor could afford to buy their requirements. It was also necessary for the Government of India to establish a system of planned movement of supplies from surplus to deficit Provinces and States. There was delay in the establishment by the Government of India of a system of planned movement of supplies. The Bengal Government failed to secure control over supply and distribution and widespread famine followed a rise of prices to abnormal levels from five to six times the prices prevailing in the early months of 1942. This rise in prices was the second basic cause of the famine. Famine in the form in which it occurred, could have been prevented by resolute action at the right time to ensure the equitable distribution of available supplies.

3. When the price of rice rose steeply in May and June, 1942, the Government of Bengal endeavoured to bring the situation under control by the prohibition of exports and by fixing statutory maximum prices. In the absence of control over supplies, price control failed; but by September, 1942, supplies and prices appeared to have reached a state of equilibrium. This month was a critical one in the development of the famine. If the Government of Bengal had set up at that time a procurement organization, the crisis, which began about two months later, would not have taken such a grave turn.

With the partial failure of the *aman* crop at the end of 1942, the supply position became serious and prices again rose

steeply. If a breakdown in distribution was to be averted, it was essential that Government should obtain control of supplies and prices. The measures taken by the Government of Bengal to achieve control of supplies and prices during 1943 were inadequate and, in some instances, wrong in principle. In January and February, 1943, the Provincial Government endeavoured unsuccessfully to obtain control of supplies and to regulate prices by means of procurement operations. The decision in favour of "de-control" in March, 1943, was a mistake. In the conditions prevailing in Bengal at the time, it was essential to maintain control; its abandonment meant disaster. The Government of Bengal erred in pressing strongly for "unrestricted free trade" in the Eastern Region in May, 1943 in preference to the alternative of "modified free trade". The introduction of "unrestricted free trade" was a mistake.

De-control.

One result of the policy underlying "de-control" and "unrestricted free trade" was that the greater part of the supplies reaching Calcutta was not under the control of Government. The absence of control over the distribution of supplies in Calcutta and the failure to introduce rationing at any time during 1943 contributed largely to the failure of control over supplies and prices in the province as a whole.

Inadequate arrangements.

The arrangements for the receipt, storage, and distribution of food supplies despatched to Bengal from other parts of India during the autumn of 1943 were thoroughly inadequate and a proportion of the supplies, received during the height of the famine, was not distributed to the needy in the districts, where such food was most required. Better arrangements for the despatch and distribution would have saved many lives.

Famine was not declared. The delay in facing the problem of relief and the non-declaration of famine were bound up with the unfortunate propaganda policy of "no-shortage" which, followed during the months of April to June with the support of the Government of India, was unjustified when the danger of famine was plainly apparent. The measures initiated in August were inadequate and failed to prevent further distress, mainly because of the disastrous supply position which had been allowed to develop. A famine Relief Commissioner was not appointed till late in September. It appears that at one

stage in 1943, the expenditure on relief was limited on financial grounds. There is no justification, whatsoever, for cutting down relief in times of famine on the plea of lack of funds. If necessary, funds should have been provided by borrowing in consultation with the Reserve Bank or the Government of India. The medical relief provided during 1943 was also inadequate. Some of the mortality which occurred, could have been prevented by more efficient medical and public health measures.

Expenditure on relief work limited on financial grounds.

Between the Government in office and the various political parties, and in the early part of the year, between the Governor and his ministry, and between the administrative organization of the Government and the public there was lack of co-operation which stood in the way of a united and vigorous effort to prevent and relieve famine. The change in the ministry in March-April, 1943 failed to bring about political unity. An "all-party" Government might have created public confidence and led to more effective action, but no such Government came into being. It may be added that, during and preceding the famine, there were changes in key officers concerned with food administration. In 1943, there were three changes in the post of Director of Civil Supplies.

Lack of Co-operation.

Change in Ministry.

Changes in food officers.

The impact of the war was more severe in Bengal than in the rest of India. The "denial" policy had its effect on local trade and transport, and in particular affected certain classes of the population, for instance, the fishermen in the coastal area. The military demands on transport were large. The cyclone and the partial failure of the *aman* crop were serious and unavoidable natural calamities. But after considering all the circumstances, the Commission could not avoid the conclusion that it lay in the power of the Government of Bengal, by bold, resolute and well-conceived measures at the right time, to have largely prevented the tragedy of the famine as it actually took place.

Government of Bengal's responsibility.

The Government of India failed to recognize at a sufficiently early date, the need for a system of planned movement of food-grains, including rice as well as wheat, from surplus to deficit Provinces and States ; in other words, the Basic Plan should have come into operation much earlier than it did. The Government of India must share with the Bengal Government

Central Government's responsibility not fulfilled.

De-control in March, 1943.

responsibility for the decision to de-control in March 1943. That decision was taken in agreement with the Government of India and was in accordance with their policy at the time. By March the position had so deteriorated that some measure of external assistance was indispensable if a disaster was to be avoided. The correct course at the time was for the Government of India to have announced that they would provide month by month, first, the full quantity of wheat required by Greater Calcutta, and secondly, a certain quantity of rice. The Government of India erred in deciding to introduce "unrestricted free trade" in the Eastern Region in 1943 in preference to "modified free trade". The subsequent proposal of the Government of India to introduce "free trade" throughout the greater part of India was quite unjustified.

Unrestricted free trade.

Bengal Government's failure.

By August 1943, it was clear that the Provincial Administration in Bengal was failing to control the famine. Deaths and mass migration on a large scale were occurring. In such circumstances, the Government of India, whatever the constitutional position, must share with the Provincial Government the responsibility for saving lives. The Government of India sent large supplies of wheat and rice to Bengal during the last five months of 1943, but it was not till the end of October, when the Viceroy, Lord Wavell, visited Bengal, as his first duty on taking office, that adequate arrangements were made to ensure that these supplies were properly distributed. After his visit, the whole situation took an immediate turn for the better.

Lord Wavell's visit to Bengal.

Changes at the centre.

The Commission felt it necessary to draw attention to the numerous changes in the individuals in charge of food administration of the Government of India during the crucial year of the famine. In Bengal, the new ministry took office towards the end of April and Sir Thomas Rutherford became Governor in September 1943, replacing the late Sir John Herbert. Thus, during the various critical stages in the famine, heavy responsibility fell on individuals who were new to their posts.

People's failure.

The Commission expressed the view that the public in Bengal, or at least certain sections of it, had also their share of blame. We have referred to the atmosphere of fear and greed which, in the absence of control, was one of the causes of the rapid rise in the price level. Enormous profits were

made out of the calamity, and in the circumstances, profits for some meant death for others. A large part of the community lived in plenty while others starved, and there was much indifference in face of suffering. Corruption was widespread throughout the province and in many classes of society.

Great tragedy: fifteen lakhs fell victims.

The Commission estimated that a million and a half of the poor of Bengal fell victims to circumstances for which they themselves were not responsible. They concluded their Report with the observation that society, together with its organs, failed to protect its weaker members. Indeed there was a moral and social breakdown as well as an administrative breakdown.

The Commission also made important observations on death and disease during and after the famine, and on medical relief and public health work, and put forward valuable suggestions relating to food administration, rehabilitation, and protective and supplementary foods.

Aftermath of the famine.

The sufferings of the people did not end with the end of the famine. Diseases of various sorts which followed in the wake of the famine weakened the vitality of the people and shattered their moral stamina. It took them a number of years to shake off the effects of the destitution and devastation brought about by the great disaster.

Present crisis.

During the last decade there has not been a famine or severe scarcity throughout India, although food shortages of greater or less intensity have occurred on several occasions in many parts of the country. In 1948-49, substantial damage was caused to standing crops over large areas, while food production was adversely affected by the failure of the monsoon in many parts of Western India and Gujerat and by floods in Uttar Pradesh and Bihar. In 1950, a great earthquake and subsequent floods brought about disaster to Assam. In many other States also there were heavy floods, while in some others failure of rain ruined the harvests. Thus severe scarcities, not very far removed from famines, were experienced in several parts of the country even after the attainment of India's Independence.

Famines recurring calamities.

From this brief sketch it is evident that famines are frequently recurring calamities in India. Hardly a year passes in

which some part or other of the country does not, in some degree, suffer from a famine or a scarcity.

Measures to cope with famines and scarcities.

In order to cope with famines, all the provinces have their Famine Codes,[1] which, differing in minor details, agree in all essential matters. They prescribe the precautionary or preparatory arrangements to be permanently maintained in ordinary times, and the steps to be taken when the information received indicates the imminence of scarcity or famine. They also lay down the duties of all officers concerned when famine or scarcity is actually present, and the various measures of relief which are to be adopted.

Famine Codes.

Causes of famine: (i) Physical.

We should not, however, rest contented with mere palliatives. Prevention is always better than cure, and it would certainly be wise to find out the root-causes of these calamities and to adopt the necessary preventive measures. Of course, the most direct cause is drought, that is to say, the late commencement, or insufficiency, or early cessation, of the monsoon rains. Deforestation is an important cause of insufficient rainfall, and a more perfect system of afforestation than has hitherto been practised will go a long way towards preventing drought. The supply of water by means of irrigation in various forms is of even greater importance; there is still room for more vigorous action in this sphere. Improved methods of cultivation and the adoption of a system of 'dry cultivation' are also needed to ensure the production of crops. Sometimes crops are destroyed by floods, against which an efficient system of river-training and drainage is the only safeguard. Insect pests have also been known to be destructive to crops, but with the aid of science it ought not to be difficult to check this evil.

(ii) Economic.

Important as these physical causes are, the chief cause of famines is an economic one. Drought or excessive rainfall may be responsible for the insufficient production of crops in certain areas, but the main reason for the heavy mortality and the intense suffering which accompany a failure of crops is to be found in the fact that the people have no reserve power to fall back upon. The calamities which devastate the country from time to time are not, therefore, crop famines, but money famines. It is not so much the lack of food which the people

Crop famines or money famines?

[1] In 1883, the provincial Famine Codes were first promulgated. Since then they have undergone several revisions.

suffer from as the want of resources with which to buy food. But there is a class of persons whose condition is much worse than that of cultivators, namely, landless labourers. This class is, in fact, the first to succumb to the effects of a famine, though almost all sections of the community are affected in a greater or less degree.

General poverty the main cause.

Whatever may be the immediate or incidental causes of famines, the root-cause is to be found in the general poverty of the people, and this can be traced to several causes. The great bulk of the people is dependent on agriculture; and agriculture as a profession is not so remunerative as manufactures are. Most of the old handicrafts have died out, and industries of the modern type so far established in India are inadequate. The population of the country has considerably increased, but it has not been accompanied by a proportionate increase in the wealth of the country. Again, a costly system of administration has necessitated the imposition of a heavy burden of taxation.

Measures for combating poverty.

Several measures may be suggested for combating the poverty evil. Besides introducing improvements in the methods of agriculture and extending the cultivated area, every effort should be made to diversify the occupations of the people. The Government and the people should join hands in establishing manufactures of various sorts,—large-scale industries, medium-sized industries, small industries, and cottage industries. A reduction in administrative expenditure is needed so as to make possible a reduction in taxation and the development of nation-building services. Moderation in the assessment of the land revenue, together with less rigidity in its collection in bad years, and, if possible, a definite limitation of the share of the State in the income derived from the land, is likely to ensure to the cultivator the fruits of his labour and greatly improve his economic condition.

CHAPTER XVIII

THE FOOD PROBLEM

Till the year 1937, India had a food surplus and was an exporter of food-grains. But as a result of the separation of Burma from India in 1937, her surplus was turned into a small deficit and this deficit was met by a small quantity of rice being imported from Burma. There was thus no food problem until the second year of World War II, when imports suddenly stopped with the Japanese occupation of Burma. The prices of food-grains also rose immensely in successive stages in consequence of the policy of inflation adopted by the Government of India in order to find financial resources for conducting the war. The acuteness of the problem became serious during the disastrous Bengal famine of 1942-43. In the same year the Government of India launched the Grow More Food Campaign. In the early stages, it consisted of a number of *ad hoc* schemes, designed to increase food production by intensive cultivation and diversion of acreage from cash crops to food crops. In 1945, immediately after the cessation of the war, an attempt was made to place India's food economy in the post-war period on a planned basis, and a Committee was set up for the purpose. The Grow More Food Campaign, however, was not actually placed on a planned footing until 1947, when definite targets were fixed for additional food production in each Province and State.

Grow More Food Campaign started in 1943.

Placed on a planned footing in 1947.

Effects of Partition.

Meanwhile, Partition had deprived India of large tracts of land raising food and cash crops, while food imports from abroad involved a huge drain of the country's foreign exchange resources. The implications of this huge drain were not, however, realised for a considerable time, and even as late as the beginning of the year 1948, the Government laid down a "Five-Year Food Import Policy". Soon after, however, it became evident, that the continuance of large imports of food-grains would mean the economic ruin of the country. By the middle of 1948, therefore, this food import policy was abandoned. In March, 1949, the Government of India announced

their decision to stop all imports of food-grains after December, 1951, except in the case of a grave national emergency caused by a widespread failure of crops or for the purpose of building up a reserve, and to meet the deficit between production and demand by stepping up the internal production of food. A revised plan of food production was accordingly prepared by the Ministry of Agriculture, Government of India, in consultation with the Provincial and State Governments.

Decision in 1949 to stop all imports after December, 1951.

The Government's decision to stop imports of food gave in 1949 a new impetus to the Plan of Grow-More-Food Campaign started in 1947-48. An Emergency Branch was set up in the Ministry of Agriculture to co-ordinate the food production plans of all the States, arrange for financial, technical and other assistance from the Government of India and generally supervise the execution of the food production programme in the country. An expert Board was appointed to advise and assist the Food Commissioner. The Government also directed each of the States to create a similar machinery for quick and effective action.

In order to meet the deficit, which was about 10 per cent. of the country's total food production, the Government of India considered various schemes for increasing production. These consisted of three categories, namely, short-, medium-, and long-term programmes. In the short-term programme, the Government proposed immediately to increase the yield from land then under cultivation by (*a*) production and distribution of improved seeds, (*b*) application of chemical fertilisers and green manuring, (*c*) composing of farm-yard manure and town refuse and its application to the soil, (*d*) plant protection and (*e*) wider use of existing irrigation facilities. The medium-term projects included those for reclamation of weed ('*kans*')-infected and jungle lands with the aid of 375 heavy tractors imported from the U.S.A. with a loan of 10 million dollars from the International Bank. The long-term programme involved large irrigation schemes, which included also flood control and the development of power facilities. The Government plans envisaged the increased production of food grains as well as commercial crops.

Programme of Three Categories, —short, medium and long-term.

Loan of 10 million dollars from I.B.R.D.

By a programme of intensive cultivation in the States, it was expected to produce 40 lakh tons of additional food. Another

Intensive and extensive cultivations.

3 lakh tons would be produced through extensive cultivation by mechanised means. Further, a larger quantity of food would be produced by undertaking small irrigation works. Between 1947 and 1949 a large number of wells was constructed, many tanks were repaired, and tube-wells were sunk in many parts of the country with the aid of mechanised and hand-drilling equipments. Land improvement schemes were also undertaken in some parts of the country by drainage and clearance of marshy lands. Steps were also to be taken for soil conservation by preventing erosion. In addition to the greater use of green manures, the use of chemical fertilisers was to be encouraged. For this purpose a large Fertiliser Factory was established at Sindhri in Bihar in 1949. For the long-term programme multi-purpose irrigation projects were planned. Apart from the programme for increasing the production of cereals, the Government also decided on the development and use of such high-yielding non-cereal food crops as *banana*, *papaya*, sweet potato and tapioca, which had good food value and the yield of which per acre was many times more than that in the case of cereals.

Small irrigation works.

Land reclamation, conservation of soil, use of manures.

Sindhri Fertiliser Factory.

Financial provision.

As the success of the programmes would depend on the provision of adequate finance, loans and grants were to be given more extensively than before. The principles of action laid down were, on the whole, quite good, but how far they were actually carried out in practice and to what extent the loans and grants reached the proper persons were also not free from doubt. As a matter of fact, food production did not substantially increase; on the other hand, the production of food-grains declined by 7 per cent. in 1948-49 as compared with 1947-48. The percentage and quantitative achievement in 1949-50 marked, in the official view, an improvement over the previous two years.

1949-50.

During 1949-50 additional production was achieved through irrigation schemes, cultivation of fallow lands and reclamation of waste land by the Central Tractor Organisation. A number of States, including Madhya Pradesh and Uttar Pradesh, enacted legislation making it obligatory on landowners to cultivate lands lying fallow. In addition, a number of special measures suggested by the Centre were adopted by the State Governments.

A great deal of propaganda work was carried on with the object of persuading the consumers to show a spirit of sacrifice by observing abstinence, to substitute non-cereal foods for cereals, and to effect savings in food-grains by methods like 'miss a meal' once a week. The quantities of the food ration were reduced more than once in many of the States, forgetting the fact that even the original quantities of ration had been below the nutrition level. The import target was raised by successive stages from 1·5 million to over 3 million tons. The expenditure of the Government on food purchases amounted to about 130 crores of rupees.

But, in spite of these measures and in spite of larger imports of food-grains from abroad than what had originally been contemplated, there was insufficient supply of food in the country at the end of 1950. This was attributed in official circles to natural calamities such as cyclones, failure of rain in some areas, and floods in others. But such natural calamities are not uncommon happenings in India, and foresight, imagination and administrative ability ought to have been able to prevent them or at least to guard against their disastrous effects.

Food debates in Parliament and in the Press.

The food problem became the subject of discussion in Parliament as well as in the Press. In the third week of November, 1950, a lively and somewhat acrimonious debate took place in Parliament on the question of the handling of the food situation by the Government. The facts and figures supplied by the Food Minister and the arguments advanced by him failed to satisfy the members, while his optimism was dubbed as complacency.

A Campaign for Food Self-Sufficiency was undertaken by the Government of India and the State Governments. During the years 1949-50 and 1950-51 numerous statements were issued and innumerable speeches were made by Cabinet Ministers and officers of the Government, high and low. But the actual results of the Campaign were very poor. The reason for this gap between the promise and the performance was to be found in the fact that food does not grow on statements and speeches. Many of the schemes which were framed were not actually carried out in practice, while very little of the financial assistance sanctioned by the Government reached the actual

Causes of failure of Grow More Food Campaign.

tillers of the soil. In brief, the failure of the plans may be ascribed to (*i*) corruption, incompetence and neglect of duty on the part of the Government officers, (*ii*) greed, profiteering and blackmarketing on the part of the traders, (*iii*) apathy and lack of confidence on the part of the general public, and (*iv*) helplessness and hopelessness on the part of the agriculturists and landless cultivators. Inordinately high prices of food caused great misery to the poor and middle classes all over India, serious food shortages were experienced in most parts of the country, and acute distress, akin to a famine prevailed over large areas in some of the States of the Indian Union.

1951.

The food situation deteriorated in 1951 on account of drought in many States and the threat of famine in Bihar. The position was worsened by the high prices due to devaluation of the Rupee and the Korean War. The needs of the people for food were met by very large imports, but this fact created further complications owing to India's shortage of dollars. The prices of food-grains rose to great heights. The American long-term food loan of the value of $190 m. came as a measure of considerable relief at this moment.

The year opened with gloomy portent. Stocks of food-grains with the States were very low. *Kharif* crops having been extensively damaged, procurement was not expected to come up to the normal. Frequent breakdowns in rationing and distribution of food-grains occurred. To meet the situation, a temporary cut in the overall rations from 12 ounces to 9 ounces in all the States was announced in January, 1951. There was a prolonged spell of drought in Western India and other parts of the country. In the drought-affected areas Government works and test-relief were started, particularly in Bihar, Ajmere, Rajasthan, North Gujrat and Saurashtra. In November the rain-fall improved the prospects of the *rabi* sowings to a certain extent. On the other hand, the North-East Monsoon again failed in Madras and Hyderabad.

The total imports of food-grains during the year amounted to 47·28 lakh tons valued at Rs. 216 crores. This quantity comprised 7·49 lakh tons of rice, 30·5 lakh tons of wheat and flour and 9·71 lakh tons of milo and sorghum. The arrival

of wheat from the U.S. was the most welcome feature of the situation.

The year 1952 opened with a better stock position, though it continued to be an anxious one for Indian agriculture. The over-all food position during 1952 was generally better as compared with that of the two previous years. The Grow More Food Campaign was continued. An enquiry into its working was entrusted to a Committee under the chairmanship of Sri V. T. Krishnamachari. Besides the normal G.M.F. Scheme, an accelerated programme of minor irrigation works was taken during the year. An intensive drive for better cultivation of paddy was undertaken. The land reclamation programme with the help of tractors was conducted with greater energy. A programme for the sinking of tube-wells was taken in hand. The Central Ministry continued to render assistance to the States which were deficit in seeds. Encouragement was given to the manufacture of composts and its utilization in larger quantities. The scheme for the utilisation of sewage and sullage made considerable progress. A large amount of ammonium sulphate produced at Sindhri was made available for distribution at lower prices and on a credit basis. The production from other indigenous producers of fertilizers was also utilised. Bone-meal manuring was also encouraged.

The year 1952 opened with a stock of 13·1 lakh tons as 1952.
against 7·3 lakh tons at the beginning of 1951. In some of the States the crops, *kharif* and *rabi*, were, however, adversely affected by a prolonged spell of drought. In February, 1952, a Basic Plan was drawn up on the basis of an aggregate requirement of the States. In the beginning of 1952 there was a rise in prices of imported food-grains. The scheme of subsidy was discontinued with effect from March 1, 1952, but imported rice (coarse, broken and milo) was supplied by the Government of India to the recipient States at prices lower than the actual landing costs. Even then, the withdrawal of the subsidy scheme resulted in the rise of the issue prices at several centres. Subsequently, however, the issue prices were brought down by a further reduction in prices at which food-grains were supplied to the States.

The import-target originally fixed for the year was 5 million

tons. Subsequently, however, it became possible for the Government of India to reduce the imports. The actual quantity of food-grains received during the year was 38·6 lakh tons valued at Rs. 210 crores. These imports included 11·1 lakh tons of wheat and milo imported from U.S. under the Loan Agreement and 1·7 lakh tons of wheat and flour supplied by Canada and Australia under the Colombo Plan.

Scarcity conditions, which prevailed in the various parts of the country even after the natural calamities had abated considerably by about the middle of August, 1952, except in Maharashtra, Rajasthan, Mysore, Madras and West Bengal. Measures, however, were taken by the Government of India to alleviate the distress in those areas.

1953. The year 1952 ended with a comfortable stock of 1·2 million tons. The crop prospects were better than those in the preceding two years. In the case of millets, some damage was reported from some parts of the country. The improvement in the general food position recorded in 1952 was accelerated during 1953. The over-all production of cereals was the highest since Independence—47·6 million tons, which was 5·1 million tons higher than in 1952. The production of rice was 3·4 million tons—highest on record. With increased production prices fell in the country.

For larger production special emphasis was laid on minor irrigation schemes of a permanent nature and on intensified application of fertilisers, manures and improved seeds to grow paddy and wheat. A large number of tubewell was sunk under the Indo-U.S. Technical Co-operation Aid. The work of reclamation of *kans*-infected and jungle lands by the Central Tractor Organisation was continued. Compost sewage, sullage and bonemeal schemes produced better results. In March, 1953, the campaign for propagating and popularising the Japanese method of paddy cultivation was organised on a country-wide basis. Crop competition, first introduced in 1949-50 with a view to generating enthusiasm among cultivators through healthy rivalry, was continued.

The South-West monsoon during July-September, 1953 was generally good for the second year in succession. The winter rains too were satisfactory. The areas sown with crops were larger in 1953 than in 1952. The good weather, larger acreage

and greater use of fertilisers led to an increased production of food-grains. The Japanese method was also helpful.[1]

In 1954 Food position good.

The year 1954 commenced with a comfortable stock of food-grains with the Central and State Governments. As the year advanced there was further improvement in the production of food-grains taken as a whole.

Emergency food reserve.

In order to safeguard the food position in the coming years, the Central Government decided to build up an emergency food reserve. The first step was taken towards the end of the year 1954, partly with rice imported from Burma and partly with the stocks of rice which the State Governments had acquired prior to decontrol in July 1954.

The food situation continued to improve and the year 1955 had the record production in the case of wheat, coarse grains,

Japanese method in the different States.

[1] A total of 2·60 lakh acres was, according to latest figures, put under the Japanese method since March, 1953 when the campaign for it started. In addition, the method was partially adopted on another 30 lakh acres. The average additional yield of grain per acre by the use of the method was reported to be about 40 maunds.

Figures received from some of the major rice-growing States show how the Japanese method produced substantial results.

Uttar Pradesh had 31,007 acres in 1953 under the Japanese method. The maximum output per acre after the adoption of the new method reported from that State was 80 maunds of paddy, the normal yield being 5 maunds 35 seers.

West Bengal farms reported yields of 95 maunds per acre under the Japanese method, whereas the normal yield was only 11 maunds. There were 61,839 acres under the new method in 1953 in that State.

In Madhya Pradesh, with a thousand acres under the Japanese method, the paddy yield rose from 8 maunds 6 seers to 117 maunds an acre in some of the farms.

The maximum increase in Bombay, which brought 5,400 acres under the new method, was from 2 maunds 10 seers to 120 maunds per acre.

Nowhere, however, was the increase so spectacular as in Mysore where the output increased from 7 maunds 15 seers to 144 maunds per acre in some farms. This State had tried the new method in 28,070 acres.

Madras, a major rice-growing State, had 20,000 acres under the Japanese method.

The main features of the Japanese method are: preparation of a raised seed-bed, selection of the right type of seeds, lesser seed rate, line-sowing at the time of transplanting, inter-culturing and heavy application of manure and fertilizers.

The saving in seed, under the new method, was stated to be considerable. One Bombay farm reported that the seed rate has come down by the use of the new method from between 4 and 80 lbs.

Minimum saving reported was 50 per cent.

The data relating to fertilizer consumption after the adoption of the Japanese system also make interesting reading.

Under the new method about a hundred lbs. of fertilizers, ammonium sulphate and phosphates, are applied to an acre besides organic manure like farm-yard refuse.

Further improvement in 1955.

pulses and oil-seeds. Production of sugarcane also improved. Although there was a decline in the production of rice from 27·8 million tons to 24·2 million tons, the target in respect of all cereals taken together fixed under the First Five-Year Plan was already more than achieved. The following table gives an idea of the progress:—

PRODUCTION OF MAJOR CROPS

Crop	Base Year (1950-51)	First Plan target	Achievement in 1954-55
Cereals (lakh tons) ...	46·0	52·5	55·3
Pulses (including gram) ... (lakh tons).	8·3	9·1	10·5
Oilseeds (lakh tons) ...	5·1	5·5	5·9

Extension of Japanese method.

The Japanese method of cultivation was extended during the year to cover a total area of 20·06 lakh acres.

Control and decontrol.

Between the years 1941 and 1954 various measures were adopted to restrict, control and regulate the supply and distribution of food in different parts of the country. These measures were resorted to in several stages and as the situation demanded. They were not uniformly applied everywhere. Restriction of free movements of food articles in the different States, price fixation, fair price shops, rationing and other forms of control were exercised in order to get over the food crisis. These were necessary; but the exercise was often crude, harsh and unintelligent and on various occasions imposed hardships on many sections of the community. Control also brought in its train various evils such as corruption and unfair distribution. Naturally, these measures became unpopular to the bulk of the people. Therefore as soon as the food situation showed signs of improvement it was considered desirable to remove the controls gradually. The first steps towards decontrol were taken by the Food Minister, Sri Rafi Ahmed Kidwai towards the end of 1953. Progressive decontrol continued in 1954, while all vestiges of food control were removed in 1955.

Some regression in 1956.

Unfortunately, there was some regression in the food situation in 1956. Occurrences of floods over the greater part of the country added to the trouble. Consequently, the prices of the foodgrains began to increase. In order to check the further

rises in the prices of foodgrains the Central Government as well as the State Governments were obliged to open fair-price shops and also to restrict the movement of foodgrains from one place to another. As many as 15,000 fair-price shops were opened throughout the country by October, 1956. A total ban on the export of rice and other foodgrains, stoppage of Government purchases of foodgrains in the internal markets and restriction on advances by Scheduled Banks against stocks of rice and paddy were other measures adopted by the Government for the same purpose. The situation deteriorated so much that reintroduction of rationing had also to be considered.

Early in 1957, the rice prospects were officially estimated to be good. Nevertheless, the Government decided to build up a buffer stock of two million tons of foodgrains, both out of imports and internally procured grains. Subsequently it was thought desirable to confine the reserve only to imports so as to prevent any disturbance in the internal market.

Vigorous attempts will have to be made for preventing further deterioration in the food position. The starting of an emergency food reserve in 1954 and the building up of a buffer stock in 1957 are wise decisions. Among other steps taken in the direction of achieving self-sufficiency in food, the use of Japanese method of cultivation in more areas, distribution of seeds and manures, both natural and artificial, on a larger scale and financial assistance to the tillers of the soil should get special attention.

It was decided at the time of giving final shape to the Second Five-Year Plan, that the target for food production should be increased from 15 per cent to 40 per cent. This was the right thing to do, but it was stated at the same time that no additional financial resources would be made available for this enormous increase in food production. It is difficult to understand how this big increase can be secured without making provision of extra funds for it.

The existing low rate of food consumption also demands attention. Food consumption per adult of the population, which, in terms of calorie equivalent (100 calories = 1 ounce of cereal) stands to-day at about 2,175, is still considerably below the pre-war average of about 2,375 and much more so when compared with the standard requirement of 3,000 calories per

adult recommended by the Nutrition Advisory Committee. Moreover it is not mere increase in quantity that is needed, but a great improvement in its quality will be essential. Special care should immediately be taken for more supply of protective and supplementary foods, *e.g.*, fruit, milk, fish, eggs, meat etc.

In 1957 official estimate unjustified; continued high prices dangerous; scarcities steadily spreading.

With the advance of the year 1957 scarcities are steadily spreading over larger areas in almost every State. The prolonged prevalence of high prices of food throughout the country is becoming a grave menace to society. High prices are entailing less consumption of food which, in its turn, is lowering the vitality of the people and is rendering their bodies less able to resist any calamity. A substantial reduction of food prices is thus urgently needed.

Administration must be vigilant and alert.

The administrative aspect of the problem is of the utmost importance. Ministers and officers, high and low, should imbue their minds and hearts with a full sense of devotion to duty. Constant vigilance should be their watchword and dilatoriness should be strictly discouraged. If there is the apprehension of a critical situation anywhere, the provisions of the Famine Code should immediately be set in motion.

Food to be imported from wherever available.

Food should be imported from Burma and other neighbouring countries as far as possible; but if need be, there should not be any hesitation in procuring it from the U.S., Canada, Australia and the European countries.

There must not be any dilatoriness in the matter of food importation, because the available food supply abroad does not seem to be plentiful at the present moment.[1]

Famine must be prevented.

The most strenous effort must be made in every sphere of action to prevent a scarcity developing into a famine in any part of the country.

[1] Dr. B. R. Sen, Director of the U.N.F.A.O. said at The Hague on May 1, 1957 that the F.A.O. budget had not kept pace with the increase in the organisation's responsibilities and work in the last ten years.

CHAPTER XVIII

IRRIGATION AND POWER

1. IRRIGATION

WE have already seen that in many parts of India the normal annual rainfall is very defective; and in some others, although the total quantity of rainfall is large, it is badly distributed with reference to the requirements of the crops. In all these areas, irrigation is necessary for the growth of crops.

Necessity of irrigation.

Irrigation was practised in India from very early times. The remains of the canals constructed by Hindu monarchs as well as by Mahomedan rulers are still to be found in many parts of the country.[1] The chief works executed by Hindu kings were tanks, of which there were thousands,—many silted up, many in ruins, many dry by destructions of the supply channels. The whole of Southern India is still covered by networks of old tanks, and millions of acres are still irrigated by them. These tanks vary in size from a few acres to ten square miles of water surface. In some places there is the chain system, where the surplus of one tank flows into the one below. Well-irrigation has always been very important in Northern India.

Irrigation practised from remote ages.

During the early years of British rule, irrigation was much neglected, and to this neglect was due[2] the destruction of many noble works. The repair of old storage works and the construction of canals were strongly urged by Sir Arthur

Neglect during early years of British rule.

[1] Speaking of the 'overflow canals' of Bengal in the past, or 'dead rivers' as they are called to-day, an eminent expert observed that "they fall behind the great irrigation works of other countries in no particular whatever. First of all stands the magnitude of the work. Take the country traversed by these canals on the Ganges and the Damodar, and we have an irrigated area which could not have been under 7,000,000 acres. And then we have canals aligned and designed on the soundest principles, which worked for many hundreds of years and were only dislocated by a generation of civil war and discord." Sir William Willcocks, *Ancient system of Irrigation in Bengal.*

[2] Lt.-Col. Tyrrell wrote: "In the Nagpur and Hyderabad country of the Deccan, the ruins of extremely large tanks exist, now in the midst of jungles, formerly the sites of a rich cultivation and a busy population." *Public Works Reform in India.*

Cotton, in the forties of the last century, but it was not until the middle of the last century that the matter engaged the serious attention of the Government.

Inundation canals.

The simplest method of supplying water to fields is that of leading water from rivers and streams by means of inundation canals. These are mainly to be found in the basin of the Indus and its tributaries. It is, at the best, a precarious system of irrigation. The most important system is that of perennial canals. Many of the weirs in Madras were constructed by the Hindu monarch, Krishna Raya, early in the sixteenth century. The earliest in Upper India were the Jamuna Canals. The one on the west bank, attributed to Firoz Shah in the fourteenth century, fell into disrepair and was restored by Akbar and Shah Jehan. The Eastern Jamuna Canal was originally commenced by Shah Jehan, and restored and improved by the British Government.

Perennial canals.

Remains of old works.

Early efforts.

The early efforts of the British Government in India were directed to the improvement of the existing indigenous works rather than to the construction of new irrigation projects. In the first quarter of the nineteenth century, three important improvement schemes were taken in hand, *viz.*, the Western Jamuna Canal in the Punjab, the Eastern Jamuna Canal in Uttar Pradesh and the Cauvery Delta system in the south. The famine of 1832-1833 led to the construction of some irrigation channels, but these were executed in haste upon imperfect information or bad alignments. The Cauvery Delta system is of far greater antiquity than the two Jamuna systems and irrigates over a million acres.

Important canal schemes.

Cauvery Delta system.

The first serious attempt in the construction of canals commenced about the year 1840, when the project for the Ganges Canal was submitted. But the construction of this canal was greatly delayed owing to political and financial difficulties. On the Report of Sir Arthur Cotton in 1844, the Godavari Delta scheme was excavated in 1846. This system has been of untold value to the tract it irrigates. During the fifties and the sixties of the last century, the great inundation canal systems of Sind were restored, enlarged, and brought into working order. In the Bombay Presidency, storage works were undertaken, and the Mukti Tank was constructed in 1869. But the most important move in the direction of pushing irrigation works came

Middle of the nineteenth century.

when the Secretary of State for India accepted the principle of financing productive works by loans raised in the open market. Under this new policy five works of great magnitude, *viz.*, the Sirhind, Lower Ganges, Agra, Lower Swat and Mutha Canals, and several smaller ones were taken in hand.

Bari Doab Canal. The Cauvery system is the largest delta system and is the most profitable of all the works in India. There are seven similar delta systems in Madras, and one in the delta of Mahanadi in Orissa. The Bari Doab Canal was the first of the modern works in the Punjab, commenced in 1850, and was followed up by a series of canal projects. Of these the Sutlej Valley project alone accounted for 533 miles of main and branch canals and about 3,000 miles of distributaries. The Haveli project was calculated to provide perennial irrigation over 5½ lakh acres and non-perennial irrigation over 4½ lakh acres, besides irrigating neighbouring tracts. The Triple Canal Project, which was completed some time ago, was regarded as one of the most brilliant feats of canal-engineering.

Sutlej Valley.

Triple Canal Project.

Punjab Canal Colonies. Irrigation in the Punjab turned arid deserts into fertile fields. Millions of acres of wilderness were turned into areas of luxuriant crops, and a new population of a million people found home in these areas. With their planned villages and towns, built up with the aid of modern science and organisation, coupled with state assistance and the beneficient activities of co-operative societies, the Punjab Canal colonies became the objects of envy to the other provinces. They added not only to the economic prosperity of the people, but also led to a considerable increase in Punjab's revenue. About one-fifth of the total area cultivated in the Punjab was colonised as a result of irrigation.

Storage works. The demand for storage works was the greatest in Bombay and Madras, where most of the rivers had short courses, and the rain, which frequently fell in heavy but brief storms, passed away rapidly. The reservoirs and tanks in Bombay were constructed on hilly ground. The most important of these were Lake Fife and Lake Whiting, near Poona. In Bombay, the irrigation works had been unremunerative. The Periyar system in the Madura district of Madras is the most interesting reservoir scheme in India. Irrigation canals are very few in West Bengal and those which exist are in a very

bad state. Formerly, the head waters of the Bhagirathi were kept free by constant attention and this great river supplied water to the numerous rivulets and canals in the greater part of West Bengal. But the drying up of the head waters in recent years has led to the drying up of the canals and rivulets, thus creating a critical situation for nearly the whole of the State.

Navigation canals.

There are very few canal systems in India which were constructed for the sole purpose of navigation. These include the Circular and Eastern Canals in Bengal, the Orissa Coast Canal (including the tidal canal), and the Buckingham Canal in Madras.

Major and Minor Works.

Productive and Protective Works.

For official purposes, irrigation works were formerly divided into two main classes—Major Works and Minor Works. Each of these main heads was again sub-divided into two subsidiary ones—(*i*) Productive and (*ii*) Protective. With the introduction of the Montagu reforms, two important changes were made in this regard. In the first place, irrigation was made a provincial reserved subject. In the second place, all works were classified as productive or unproductive.

Area irrigated.

During the year 1935-36, the area annually irrigated by Government works rose to about 31 million acres, *i.e.*, about one-eighth of the total cultivated area in British India. The total capital outlay on irrigation and navigation works amounted to over Rs. 153 crores in 1935-36. The estimated value of crops raised from areas served by State irrigation was about Rs. 1,100 crores.

Major Works.

Of about 300 irrigation schemes in operation in British India, 70 were of a major description and only a third was classified as unproductive. Special mention should be made of the following major works: the Sukkur or Lloyd Barrage in Sind; the Sutlej Valley Project; and the Cauvery Reservoir and Mettur Project. The Mettur Dam, easily the first among those in India, is over a mile long and impounds a lake with a shore-line of 180 miles.

Benefits of irrigation.

The advantages of irrigation are manifold. It is a boon to the cultivators, for not only is the outturn of their fields ensured in years of drought, but the amount of produce is very largely increased in ordinary years at a comparatively

small cost. The advantages to the country as a whole[1] are that they protect large areas from the effects of famine, and increase the total food-supply of the people. Lastly, they are beneficial to the Government in this that, besides bringing increased revenue into its coffers, they help to lessen the miseries of the people, and thus remove one of the chief causes of popular discontent.

U.P. grid system. An important line of development is the rural electrification schemes in some parts of the country. In Uttar Pradesh under the grid system, convenient centres have been established all over the State to supply cheap electricity secured from water-power available in the course of the manipulation of irrigation water. **Hydro-electric power systems.** In a few other parts of the country, hydro-electric power stations have been established. In Madras, the Pykara, Mettur and Papanasam power stations are important. In Kashmir, the Jhelum has been harnessed. The Tata Hydro-electric Water Works supply Bombay and its textile industry with electric power. Sivasumudram Works in Mysore, which utilize the water of Cauvery, supply power to Kolar gold fields. Further developments in this line may in course of time revolutionise the agricultural and industrial outlook of those tracts where power can be generated out of the energy of running water.

Need for more irrigation. Although some progress has been made in irrigation, much yet remains to be done. Only a small percentage of the total supply of water has been utilised for the benefit of man.[2]

2. WATER POWER DEVELOPMENT

Failure to make full use of water-power. We now come to the multi-purpose river schemes. The water potential of India is immense. Experts who have made elaborate surveys are of the view that next to the U.S.A., India has the best water resources in the world. Hitherto only a

[1] In pleading for the restoration of the ancient irrigation works of Bengal, Sir William Willcocks claimed that it had "combated malaria, provided an abundant harvest of fish, enriched the soil and made congestion of the rivers impossible".

[2] "It is estimated that of the total rainfall on this continent, nearly 60 per cent. gets evaporated, about 40 per cent. passes through the river channels, and of this 40 per cent. barely 6 to 8 per cent. is utilised by the rural population for irrigating their fields." Dr. Meghnad Saha, *Presidential Address at the National Institution of Science of India*, 1938.

Lt.-Col. Sir Arthur Cotton observed more than a century ago: "There is no gold mine in the world that can be compared to an irrigation work." *Lecture on Irrigation Works in India*, p. 1.

few have been tapped. Although we have more acreage under irrigation than any country in the world, we utilize only 6 per cent. of the flow of our rivers. India produces more energy from water than any other country of Asia, yet we are putting to use no more than 1½ per cent. of the water power available in our mighty rivers and the streams and waterfalls of the snow-clad Himalayas. Until recently, the Government had followed the policy of confining its river projects to irrigation and generation of electricity and had paid little attention to the control of floods or to the provision of navigation facilities. Piecemeal exploitation of river resources yielded only limited benefits. The success of the Tennesse Valley Authority made it clear to all, that for the maximum utilization of the power of a river, a comprehensive multi-purpose project should be framed which should provide for irrigation, navigation, flood-control, hydro-electric power, pisci-culture and recreational facilities. Until a few years ago, the initiative for preparing river projects rested entirely with the provinces and there was no central organisation to prepare projects on major rivers which flowed through more than one province.

Schemes framed after Independence.

After the attainment of Independence the attention of the Central and State Governments was focussed on multi-purpose schemes. A Central Water-power, Irrigation and Navigation Commission was created to collect and collate all the data required for proper river planning. This body, in consultation with the Chief Engineers of States, approved of 46 projects which were to be proceeded with and completed in the course of 7 years ending in 1955-56. The most important major projects are: the Damodar Valley Project in West Bengal and Bihar; the Hirakud Project in Orissa; the Rihand Project in Uttar Pradesh; the Bhakra-Nangal Project in Punjab; the Tungabhadra Project in Andhra Pradesh and Mysore; the Koyna Project in Bombay; the Chambal Project in Madhya Pradesh and Rajasthan; the Nagarjunsagar Project in Andhra Pradesh; the Kosi Project in Bihar; and the Mor Project in West Bengal.

Central Water-power. Irrigation and Navigation Commission.

Important major projects.

Benefits.

The benefits accruing from these 46 projects were authoritatively reckoned as 173,000 tons of additional yield of food-grains during 1950-51 which was to increase almost eight-fold to about 1,380,000 tons in 1955-56 and to 3 million tons later

on every year on completion and an augmented output of hydro-electric energy to the extent of 1·85 million installed kilowatts, nearly doubling the present installed capacity of hydro-electric plants throughout the Indian Union.

Damodar Valley Project.

All these major and minor schemes are under construction. Of these, a very important project is the Damodar Valley. The river Damodar rises in the hills of Chotanagpur, flows through the Hazaribagh District, receives Bokaro, Konar and other affluents and enters Manbhum. At the point where it leaves Dhanbad and touches the border of Bengal, it receives its principal tributary, the Barakar, from the north. It now becomes a mighty river, and after flowing through the Bankura, Hooghly and Howrah Districts enters the river Bhagirathi some 30 miles below Calcutta. As Damodar receives the heavy downpour of the monsoon months, it often overflows its banks, after it has entered Bengal. These floods destroy crops, disrupt communications and dislocate the economic life of the people. But during the winter and summer months the volume of water in the river dwindles to almost a trickle so that irrigation is not possible. The project envisages the construction of 7 dams and a barrage for the regulation of stream flow. The barrage is to be located at Durgapur about 15 miles below Raniganj and will divert regulated flow into irrigation canals. The project will thus not only control floods but will also irrigate 1 million acres of land.

Benefits of DVC.

It has been estimated that the additional food that will come from the area will be about 50 lakh mds. of rice per annum. The cultivation of a second crop will also be possible. Electric-power generating stations have been planned at all the dams. The total capacity of all the hydro-electricity and thermal electric stations will be about 400,000 kw. According to a special study made by the Geological Survey of India, there is scope for no less than 110 industrial units of different types in this valley because of its mineral wealth. Already the Governments of Bihar, West Bengal and the Damodar Valley Corporation are jointly planning the development of several electro-chemical industries. Moreover, the production of hydro-electricity will facilitate the electrification of the railway system and lead to the conservation of high-grade coal which is now consumed by the railways. Numerous other

benefits will also accrue from this project. An 80-mile long navigation channel has been proposed to be constructed which will carry goods and passengers between Calcutta and the coal-fields at economical rates.

The reservoirs, the river itself, and the irrigation canals will be eminently suitable for fish culture. The communities living on both sides of the river will be assured of regular supply of drinking water. Moreover, Chotanagpur will be developed as a health resort.

It was originally estimated that the scheme would cost Rs. 55 crores, but revised estimates put the cost at about 110 crores, of which Rs. 17·08 crores will be spent during 1957-58. It is expected that the completion of the scheme would take 10 years. The cost is being borne by the Central Government, the Government of West Bengal and the Government of Bihar and the profits are to be divided in proportion to the capital contributed by the three parties. The execution and operation of the scheme has been entrusted to a board of three persons known as Damodar Valley Corporation. A loan of about 25 million dollars from the Internatinal Bank for Reconstruction and Development has already been obtained.

Recent Progress.

The Damodar Valley Corporation has now entered upon the ninth year of the construction programme. The salient features of the Damodar Valley project and the up-to-date progress are briefly given below:—

Bokaro Thermal Plant.

The construction of the Bokaro Thermal Station has been completed. This power station will be capable of generating 460,000,000 K.W.H. energy a year.

Konar Project.

The Konar Project was opened on the 15th October, 1955. and it provides for a concrete gravity dam about 910 ft. long with a maximum height of 162 ft.

Tilaiya Project.

The Tilaiya project consists of a concrete gravity type dam 1,147 ft. long with a maximum height of 99 ft. above the river bed and a power house with a capacity of 4,000 K.W.

Maithon Project.

The Maithon project consists of an earth Dam and a hydro-electric station with a capacity of 60,000 K.W. The main purpose of the Dam is flood control; it will also provide perennial irrigation for 270,000 acres. Up to the 31st January, 1957, 96 per cent of the work was completed.

Panchet Hill Project. The Panchet Hill project consists of an earth Dam 1,800 ft. long with a concrete spillway 1,175 ft. long and dykes on both sides and a hydro-electric station with a capacity of 40,000 K.W. The project is primarily concerned with flood control and will also provide perennial irrigation to 680,000 acres. It is proposed to generate power by December, 1957; the Dam will be fully completed by June, 1958.

Irrigation Barrage and Canals. The irrigation barrage and canals consist of a concrete barrage at Durgapur, 83 miles long irrigation-cum-navigation canal on the left bank, 40 miles of irrigation canal on the right bank and 1,430 miles of other canals, branches etc. The system will provide irrigation to an area of 10 lakh acres. The irrigation-cum-navigation canal is expected to carry an annual cargo of 2 m. tons.

Work on the extension of the electrical transmission system to Calcutta, Gaya, Patna and Dalmianagar, which is being done departmentally, is proceeding apace.[1]

Bhakra-Nangal Project. The Bhakra-Nangal project, which is being executed by the Government of Punjab, is the largest multipurpose project in India and comprises (1) Bhakra dam across the Sutlej, (2) Nangal dam, (3) Nangal Hydro-electric canal, (4) two Power Houses on Nangal canal, (5) Bhakra canal, (6) Bist Doab canal, and (7) Nangal Hydel channel system. Work on this project was started in 1946. Pakistan's interference caused some delay in the execution of this project. According to the latest report the right and left diversion tunnels have been completed. The work is making steady progress and is expected to be completed by 1960.

The work on the Bhakra canals consisting of 650 miles of main canal and branches and over 2,000 miles of distributaries is nearing completion. Perennial irrigation will start from 1959 with the completion of the Bhakra Dam.

It is estimated that 4·84 million acres can receive the direct benefits of canal irrigation, and that on an average 3 million acres will be under crop each year. The project, when fully developed, will produce 11 lakh tons of additional wheat and other food-grains, 8 lakh tons of dry and green fodder.

According to the latest project report, the project is to cost about Rs. 158·88 crores.

[1] The criticism by some influential persons regarding corruption and wastage in the D.V.C. should be duly investigated.

Hirakud Dam Project.

The Hirakud Dam project in the Orissa State which involves the construction of the longest dam in the world, consists of a dam across the Mahanadi river 9 miles upstream of Sambalpur, with canals for irrigation taking off from the reservoir on both sides and hydro-electric installations. The main Dam is 195 ft. above the deepest foundation and about 3 miles long with 12·8 miles of low earthen dykes on both sides. The first stage of the project, which comprises the main Dam and power house along with canals for irrigation in Sambalpur and Bolangir-Patna districts and enables achieving complete flood control, full irrigation of 4,48,600 acres and a power potential of 85,000 K.W. was declared open by the Prime Minister on January 13, 1957. The second stage of the project which will be considered for execution later, consists of delta irrigation, the power channel, subsidiary dam and installation of additional power units raising the power potential to 195,000 K.W. The revised estimate for the Hirakud project works out to Rs. 70·78 crores.

Tungabhadra Project.

The Tungabhadra project was taken up jointly by Mysore and Andhra Pradesh. The total area to be irrigated will be 828,503 acres.

Mor Project.

The Mor Project in West Bengal comprises the construction of a dam and a barrage with a canal on either bank of the river Maurakshi. The canals command a total culturable area of nearly 600,000 acres. The cost of the scheme has been estimated at 16½ crores. This scheme has been completed, and the dam has been named 'Canada Dam'. The hydro-electric generating station went into action on the 16th December 1956.

Harike Project.

Harike Barrage in Punjab has been completed and the highway bridge over the road linking Fazilka-Ferozepore-Amritsar has been opend to traffic. The revised estimated cost of the project is Rs. 14·51 crores.

Chambal Project.

Work on the Chambal project has begun and the foundation stone of the Gandhi Sagar dam on this river near Chaurashigarh was laid by the Prime Minister in the first week of March 1954. The Gandhi Sagar Dam is at the head of the series of three dams to be constructed under the Chambal Valley Development Scheme. The second dam, called the Rana Pratap Sagar Dam, will be located down-stream at a distance of about 20 miles of the first dam. The third dam

will be located upstream at a distance of about 10 miles from Kotah city. It will be a pick-up dam. When the Valley is fully developed, the total cost of development would be Rs. 49·30 crores and the benefits would accrue in the form of 210,000 K.W. of power and annual irrigation of 14 lakh acres of land in Madhya Pradesh and Rajasthan.

In regard to the other projects, work has already been begun in some of them. The Government of Uttar Pradesh have started activities in connection with the Rihand project. Further investigations are being made in regard to the Kosi project in Bihar. In regard to the Krishna-Godavari Basins, the Planning Commission has decided that detailed investigations regarding selection of dam sites in the Krishna-Godavari Basin should be carried out. Other Projects.

Efforts are now being made to accelerate the pace of progress in regard to the multipurpose valley projects. In addition to their own contributions, increased provision has been made by the Government of India as loans and advances to State Governments for these schemes. Progress accelerated.

Recently a committee has been formed by the Government of India, with Sri S. K. Patil as its Chairman, to supervise the works of the different irrigation projects in the country. Supervision Committee.

The total area irrigated in India from all sources in 1950-51 was 51·5 million acres. An addition of 10 million acres was made during the First Plan period. During the Second Plan period it is proposed to bring under irrigation an additional area of 21 million acres. Total area under irrigation. The capacity of hydro and thermal installations in 1955-56 was: hydro—0·95 K.W. and thermal—2·47 K.W. Hydro and thermal installations.

Until recently, the Bhagirathi was the main channel of the Ganga and it was also fed by a few other tributaries which originated in the Ganga. There was an active navigation between Calcutta and Banaras not very long ago. But the site where the Bhagirathi branched off from the Ganga gradually silted up. The same thing happened to some of its tributaries. Thus there was insufficient flow of water in these rivers, but no steps were taken to resuscitate them. The Damodar embankment also deprived the Bhagirathi above Calcutta of a considerable quantity of water. Silting up of the Bhagirathi. The cumulative effect of the natural causes and human action and inaction its results.

is that the Bhagirathi has been deteriorating further and still further. Owing to the lack of sweet water supply from above in the dry season, the soft water limit in the tidal reaches of this river is extending higher up the delta. The Calcutta Corporation and the neighbouring Municipalities are experiencing difficulty in supplying sufficient quantity of drinking water from the river due to increasing salinity. This fact has been proving harmful to the health of the residents of the city and its suburbs. Besides, owing to the paucity of pure drinking water, malaria, cholera and other epidemic diseases have been causing a great havoc in a large part of West Bengal. Further, Partition has cut off easy means of communication between different parts of the State and between West Bengal, Assam and Bihar. It is also becoming inceasingly difficult for the Port authorities of Calcutta to maintain, with dredging, a deep channel for navigation by deep draft seagoing vessels even at a great expense.

The only remedy for all these evils is to make a larger volume of water from the Ganga to flow into the Bhagarithi especially during the dry season. This can be achieved by constructing a barrage across the Ganga. To meet all these needs the project of a multipurpose barrage at Faracca has been prepared by the Government of West Bengal in collaboration with the Government of India. The project proposes to divert a portion of the water of the Ganga into the Bhagirathi. Besides, the barrage will carry a rail bridge and a road bridge over it. This will considerably improve communication between West Bengal, Assam and North Bihar which is a pressing need.

Faracca barrage project.

This barrage will supply the much needed head water for the port of Calcutta and will have the effect of pushing down the flow tides in the Bhagirathi and reduce the salinity of water. With the help of the barrage it will be possible to flood flush about $1\frac{1}{2}$ lakh acres of land through the dead and dying rivers and other distributory canals. Thus, it will be possible not only to save the Port of Calcutta but also to improve the sanitation and agricultural and industrial development of the State of West Bengal. It is unfortunate that so far this project has not been taken in hand, but it is the earnest desire of all right-thinking men that there should not be any further delay in undertaking it.

Delay in undertaking undesirable.

The Planning Commission discussed the different aspects of the problem of irrigation and power development which are worthy of consideration. The Commission pointed out that for the development of irrigation and power there was need for a national policy devised in the interests of India as a whole. In the first place, facilities for irrigation and power did not exist in all parts of India and where they did exist they should be fully developed in order to increase food production. Secondly, river valleys were not confined to State boundaries and development schemes of different States would have to be co-ordinated and inter-related for the achievement of maximum results. And lastly, large projects would require financial outlays which in most cases would be beyond the resources of individual States. Thus careful financial planning and Central assistance would be needed for implementation of such programmes.

Necessity for a national policy.

The Commission emphasised that, in order to utilise continuously the technical resources, equipment and organisation, a fifteen-year plan should be evolved so that investigation and execution could proceed on sound lines.

Finance.

As regards finance, the Commission recommended the levy of betterment contribution, an upward revision of water rates and the levy of agricultural income-tax. The Commission also suggested to State Governments the creation of a non-lapsable irrigation and power development 'ways and means' fund. For the success of the projects it was considered necessary to enlist public co-operation in as large a measure as possible. It was suggested that the raising of loans from those who would benefit from these projects was a most useful way of obtaining public support.

The additional area which would be irrigated in the five year period by major projects was expected to be about 8 m. acres, while about 11 m. acres were expected to be irrigated by minor irrigation projects and tube-well schemes included in the Plan. The chief advantages of minor schemes, observed the Commission, were: (*i*) small initial outlay; (*ii*) quick execution yielding quick results; (*iii*) no special assistance required by way of foreign personnel or equipment; and (*iv*) possibility of easy mobilisation of local resources. The main disadvantages were: (*i*) their high cost of maintenance; (*ii*) short life; and

Both major and minor schemes required.

(*iii*) limited potentiality. The Commission suggested that statutory obligations be placed on the beneficiaries for the maintenance of minor irrigation works. Major schemes being multipurpose in nature could serve the needs of the country in various ways though the initial costs were high and they took considerable time to mature. But the Commission thought that a proper selection of both the varieties was necessary in order to suit the requirements of particular areas.

Irrigation is the most essential need of agriculture, while one of the basic conditions of successful industrial development is the supply of cheap motive power. The supply of coal and oil is limited in India, but the water-power resources of India are very extensive, being second only to those of the United States. Waterpower possesses one great advantage over coal and oil. The supplies of coal and oil are exhaustable, but water-power is inexhaustible and perennial. So far only an insignificant portion of waterpower has been tapped in India. If the water-power resources of the country are fully developed, this will go a long way towards the solution of the most important problems of both agriculture and industry.

3. FLOOD CONTROL

Following the chain of unprecedented floods during the 1954 monsoon season, the Government of India formulated a comprehensive programme of flood control in September, 1954. Flood Control Boards at the Centre and in the States of Andhra Pradesh, Assam, Bihar, Jammu and Kashmir, Orissa, Punjab, Uttar Pradesh and West Bengal and a Flood Wing in the Central Water and Power Commission were created. As the States were not in a position to finance flood protection works from their own resources, the Central Government advanced a sum of Rs. 2·31 crores to the various States during 1954-55 and provided another sum of Rs. 10 crores in the Capital Budget for 1955-56 for similar assistance. An expenditure of Rs. 117 crores was proposed for the execution of flood control projects during the Second Plan period.

The programme of flood control was divided into three phases: (*i*) immediate, (*ii*) short-term and (*iii*) long-term. The first phase, extending over a period of 2 years, was to be devoted mainly to intensive investigation and collection of

data. During the second phase, covering the next 4 or 5 years, it was proposed to undertake flood protection measures such as the improvement of embankments and channels. Construction of storage reservoirs on the tributaries of certain rivers and additional embankments wherever necessary were envisaged in the third phase.

The floods in 1956 were extensive over large parts of the country, in particular, the floods in West Bengal were most devastating. Much larger funds will have to be provided and a more efficient organisation will be necessary.

CHAPTER XIX

THE PROBLEM OF RURAL FINANCE

1. RURAL INDEBTEDNESS

REFERENCE has already been made to the existence of indebtedness among the agriculturists of India. The investigations carried on by responsible persons disclose the existence of appalling indebtedness under which the peasantry of the country groan. In the Bombay Presidency the Famine Commission of 1901 estimated that at least four-fifths of the cultivators were in debt. At a later date Dr. Harold Mann remarked about this Presidency: "This economic enquiry into the condition of the people of a typical dry Deccan village is disheartening. The debts are a crushing load on the people." He estimated that the average debt of the cultivators of a Bombay village was about Rs. 130.[1] In Bengal, it was calculated by Mr. Jack that, in the district of Faridpur, 45 per cent .of the cultivators were in debt, and the average debt of each family was Rs. 121.[2] In Southern India, in the Cochin State, it was pointed out that nearly 75 per cent. of the agriculturists were in debt.[3] In the Punjab it was observed by Mr. Darling that only 17 per cent. of the people were free of debt, and the average debt per indebted proprietor was Rs. 463.[4]

Enquiries in Bombay. Bengal. Madras. Punjab.

The Central Banking Enquiry Committee in 1931 roughly estimated the total rural indebtedness at Rs. 900 crores, distributed as follows: Assam, 22 crores; Bengal, 100 crores; Bihar and Orissa, 155 crores; Bombay, 81 crores; Burma, 50-60 crores; Central Areas, 18 crores; Central Provinces, 36 crores; Coorg, 35-55 lakhs; Madras, 150 crores; Punjab, 135 crores; and United Provinces, 124 crores. The Committee noted that there was a consensus of opinion that the volume had been increasing gradually in the course of the last hundred years. The Agricultural Credit Department of the Reserve Bank of India in a

Estimates of indebtedness in 1931.

[1] Mann, *Land and Labour in a Deccan Village*, p. 130.
[2] Jack, *Economic Life of a Bengal District*, p. 98.
[3] Slater, *Some South Indian Villages*, p. 137.
[4] Darling, *The Punjab Peasant in Prosperity and Debt.*, p. 5.

survey of the position undertaken in 1937 noted that the burden of this indebtedness had really become "much more crushing than could be judged from a comparison of the growth of its volume in rupees," owing to the Great Depression. There is no doubt that the figures of the Banking Enquiry Committee must have doubled, due to the accumulation of interest, not to speak of the principal debt ; to which was added further debt incurred due to distress and, in particular, low agricultural prices.

The rigour of the problem was greatly eased by the impact of the last war. The war-time rise of agrarian prices carried the rural economy up, and the prosperity enabled the reduction of a significant part of the aggregate rural debts. There was a decrease in indebtedness between 1942 and 1945, especially among holders of large agricultural holdings. Relatively large increases allowed in the control prices of farm products, together with profitable export opportunities in the three years since 1946 must have gone towards a further reduction of the volume of agricultural indebtedness.

To what extent rural indebtedness is due to thriftlessness or extravagance on the part of raiyats cannot be definitely asserted, but there is no denying the fact that there is an inherent defect in the credit organisation of the country. The dependence upon the village money-lenders and the usurious rates of interest charged by them are sapping the foundations of the rural prosperity of the country.

2. DEBT LEGISLATION

For many years much reliance used to be placed by Provincial Governments on legislation for the relief of indebtedness. We have in a previous chapter[1] mentioned some of the measures taken in the past in this direction. These legislative measures failed to reduce the burden of indebtedness. With regard to the Usurious Loans Act, the Royal Commission on Agriculture observed that it was "practically a dead letter in all provinces". The Commission recommended to the consideration of Provincial Governments the case for a simple Rural Insolvency Act, the enactment of legislation for the restriction of the powers of money-lenders, the establishment

[1] *Vide* Part I, the Chapter on 'Distribution'.

of conciliation boards and similar measures to alleviate the situation. These suggestions were endorsed in the valuable reports of the Central and Provincial Banking Enquiry Committees.

Object of legislation.

As a result there was a crop of legislation in most provinces and some measures were under consideration in others. A review of the laws, which were enacted in the thirties, revealed the following underlying objects: (1) control of money-lending; (2) scaling down of old debts and (3) liquidation of old debts. With a view to controlling money-lenders and their operations, provision was made for the registration or licensing of money-lenders, the regulation of accounts, and the fixation of maximum rates of interest. Though details varied from province to province, most provinces required money-lenders to maintain regular account books and to furnish periodic statement of accounts to every debtor. Similarly, the maximum rate of interest prescribed by law varied from a minimum of $6\frac{1}{4}$ per cent. in Madras to 15 per cent. in Bengal for secured loans, and from $6\frac{1}{4}$ per cent. in Madras to 25 per cent. in Bengal for unsecured loans. The United Provinces Agriculturists' Relief Act (1934) provided for the novel principle of a progressively diminishing rate of interest as the amount of loan increased.

Control of usury.

Debt conciliation.

A more radical remedy was the establishment of Debt Conciliation Boards, seeking to scale down debts, on a voluntary basis. Such Boards were working in several provinces, and their duty was to institute enquiries in the case of every debtor or creditor applying for relief and equitably adjust the debts. These Boards enjoyed certain powers of civil courts. They could issue certificates, usually if creditors to whom 40 per cent. or more of the total debts were due agreed to a settlement, the Boards undertaking to collect the agreed instalments, on the basis of a small commission. Later, however, the method of compulsory scaling down of debts, *i.e.*, irrespective of any agreement with the creditors, was adopted, notably in the Madras Agriculturists' Relief Act, 1937. In many cases, compulsion proved to be a better remedy than amicable settlement.

Liquidation of past debt.

The liquidation of old debts in order to allow the agriculturists to start anew on a clean slate was partly secured in

areas where Land Mortgage Banks had been established. But the number of such banks was not large enough to cope with the problem.

The result of debt legislation was a marked restriction of credit and, in the absence of the development of alternative sources of supply of credit, the agriculturist was in great difficulties, especially in periods of financial strain. The logical need of a comprehensive approach to the problem was emphasised in a Statutory Report of the Reserve Bank of India in the following terms: "These legislative enactments are definitely emergency measures to be justified only by the occurrence of unusual circumstances. Their effect in frightening away credit cannot be minimised. . . . Where, however, there is chronic indebtedness and debts accumulate because the cultivator's income is not sufficient to leave him a reasonable margin of profit, the mere scaling down of debts cannot provide a permanent cure. . . . Such chronic indebtedness requires a comprehensive policy aimed at improving the whole life and economic status of the agriculturist." In the absence of a bold and constructive policy of agricultural regeneration, the negative character of recent debt legislation did greater harm than good to the agriculturists themselves.

Reserve Bank's Report.

If rural indebtedness is to be checked in an effective manner, it is essential that comprehensive measures of a radical character should be taken up without delay, in order to reconstruct the whole economic edifice responsible for the present situation. The real remedy can only come from an augmentation of the income of the agriculturist. Agriculture by itself is not sufficiently remunerative. The first thing that is necessary is that agricultural operations will have to be substantially improved so as to yield larger returns. Secondly, occupations subsidiary to agriculture will have to be introduced, such as dairy and poultry farming, kitchen-gardening, bee-keeping, and cottage industries of various kinds.

The real remedy.

The war-time inflation of farm prices obviated the necessity of any further modification or reorientation in the rural debt policy of the Government. The result was practically a diminution of debt-legislation output during the forties. An important legislative measure of recent years was the Bombay

Wartime situation.

Recent legislation.

Money-lenders' Act of 1946 which fixed the maximum rate of interest on secured and unsecured loans at 6 and 9 per cent. respectively. Another important piece of legislation was the Bombay Agricultural Debtors' Relief Act of 1947, which repealed the earlier Act of 1939, and aimed at scaling down the debt, *pro rata* to the paying capacity of the debtor through the court of the civil judge.

3. THE CO-OPERATIVE MOVEMENT

Credit—an absolute necessity in India.

It is a recognised fact that credit is an absolute necessity in all agricultural countries, particularly in India. Easy and cheap credit, however, is a source of great danger. It may lead to reckless borrowing, which would mean the ultimate ruin of the borrower. In order to supply the agriculturist with easy and cheap credit, at the same time eliminating the danger of reckless borrowing, philanthropists in Europe tried various schemes about the middle of the last century. Of these, the schemes of Raiffeisen and Schulze-Delitzsch proved the most successful. Many years ago, Sir William Wedderburn, Justice Ranade, and other statesmen advocated the establishment of credit institutions in India on the lines of these societies. In 1892, the subject attracted the attention of the Government of India, and they appointed Sir Frederick Nicholson to enquire and report on the matter. His Report was submitted in 1895.

Sir F. Nicholson's Report.

He said in the Report: "The lesson of universal agricultural history is that an essential of agriculture is credit. Neither the condition of the country, nor the nature of the land tenures, nor the position of agriculture, affects the one great fact, that agriculturists must borrow. This study assumes as axiomatic that the peasantry of India have, by the very conditions of their existence in tenure, to borrow, and borrow freely, annually, and continuously."

Advantages of Village Banks.

Nicholson suggested the introduction of Co-operative Credit Societies on the German model. The advantages of these societies are: (*i*) Absolute proximity to the borrower; (*ii*) their ability to excite local confidence and consequently to draw in local capital; (*iii*) their exact knowledge of the clients and their influence over them as co-villagers; (*iv*) their ability to work cheaply—almost gratuitously—and thus to provide cheap credit;

(*v*) retention of local capital and all profits thereon within the village; (*vi*) their ability to act as agents and brokers for their members in the sale of produce and purchase of necessities; (*vii*) their capacity for acting as village granaries; (*viii*) their ability to act as intermediaries between the state and the individual in agricultural or industrial developments, or in times of seasonal stress; (*ix*) their power of influencing borrowers towards the true use of credit and of watching the utilisation of loans in accordance with contract; (*x*) their ability to prevent fraudulent default; (*xi*) their steady educative influence in matters of thrift, association, and self-help; and (*xii*) their tendency to develop high forms of individual capacity, public life, and national character.

Co-operative Societies Acts, 1904 and 1912.

When the Government of India became fully convinced of the benefits of such institutions, the Co-operative Credit Societies Act was passed in 1904, with the hearty approval of all sections of the community. This Act divided the Societies into (1) Central, (2) Urban, and (3) Rural. The Co-operative Societies Act of 1912, however, substituted for the distinction between Urban and Rural Societies the division of Societies into (*i*) those with Limited Liability, and (*ii*) those with Unlimited Liability. It also authorised the registration of co-operative associations for purposes other than credit.

Limited and Unlimited Liability Societies.

Provincial Acts.

Closely following the Act of 1912, came the Maclagan Report of 1915, which made several significant proposals for the strengthening of the movement, one of the most important being the establishment of Provincial Co-operative Banks.

Financing of Societies.

The Co-operative Societies in India were from the very beginning handicapped by lack of funds. The growth of deposits was not encouraging, nor was it possible for Societies to borrow from the general money-market. In order to finance the Co-operative Credit Societies a new type of bank was felt necessary to link them with the money-market, and central agencies developed as a consequence. The Central Banks, as the Maclagan Committee suggested, should confine themselves to financing primary societies. The Central Banks have now been linked with a Provincial Co-operative Bank located in the chief money-market centre of the State. Thus an organisation has been built up through which the funds of the commercial

centres may percolate to the villages to finance the vital industry of the country.

Progress of Co-operative Credit.

The potentialities of the co-operative movement have been demonstrated by the steady, though slow, growth of Societies among the rural population of India.

Up to 1938-39, the number of members increased to some extent, but there was not much improvement in the financial position of the co-operative organisation taken as a whole.

During the period of World War II, agricultural credit societies continued to maintain a preponderant position. In 1949-50, credit societies constituted 73 per cent. of the total number of primary societies in India.

The societies were of the following principal varieties: agricultural credit societies, non-agricultural credit societies, central banks and banking unions, provincial banks, multi-purpose societies, primary consumers' societies, industrial societies, land mortgage banks, milk societies, etc.

The agricultural societies are important, in view of not only their large number but also of the place they occupy in the economic life of the country. Their business is to help the cultivators with funds. The activities of primary non-agricultural societies are smaller in volume. These are formed mostly in towns. The financing agencies of co-operative societies are the Central and Provincial Banks. The main function of Central Banks is two-fold, namely, (1) the balancing of funds of primary societies and (2) the supply of capital. In order to co-ordinate the operation of Central Banks an apex financing institution is needed in every State, for in the absence of a Provincial Bank, the work of the Central Banks can hardly be performed with efficiency and economy. The main object of a Provincial Bank is thus the direction of the financial system of co-operation in a province, with the aid of the Central Banks. Almost all the States have now their Provincial Banks and steps are being taken to establish such Banks in the States which do not possess such institutions at present.

Shortcomings

Although the development of the co-operative movement has so far been considerable, the rate of progress has been exceedingly slow. The population of the country is so large that the movement may be said to have touched only the

fringe of the problem. In order that an appreciable impression may be made on the economic life of rural India, funds must be forthcoming on a much larger scale. Besides, there are certain defects in its financial system, the most serious of which are an absence of elasticity, irregularity in collection, accumulation of overdues, and a defective system of audit. While the difficulty of providing adequate fluid resources is great, the drawback due to the lack of proper education of members in the ideals and working of the co-operative movement is no less a hindrance.

Another drawback of the existing system of co-operative finance is the inadequate provision so far made for long-term credit. The necessity for such credit is already great, and is likely to be greater in future. If agriculture is to be a profitable industry, the results of science and education must be applied to it. For this purpose, loans ought to be made available to cultivators for fairly long periods. Another purpose for which cultivators in India require credit is the liquidation of old debts. It is a well-known fact that agriculturists are, as a rule, heavily involved in debt. So long as these loads are not lifted from their shoulders, they will continue to drag their dull and dreary existence, without hope and energy.

Land Mortgage Banks.

With a view to providing long-term credit special institutions known as Land Mortgage Banks have been established in most of the States. These banks are financed by the issue of long-term debentures (bonds), the principal of, and interest on, which are being guaranteed by State Governments. Long-term deposits and share-capital are other sources from which funds are secured by the banks. On the security of the land, loans are being granted for periods ranging from 5 to 30 years, the amount of loan usually not exceeding half the estimated value of the land. These loans are advanced mainly to redeem old debts, to help the purchase of land, or to finance the purchase of implements and the improvement of cultivation, etc.

The Central Banking Enquiry Committee, while enthusiastically advocating the establishment of Land Mortgage Banks on a co-operative basis, warned that the working of the primary co-operative credit societies and land mortgage banks should be entirely kept separate.

The following table gives details regarding the number, membership, etc. of the Land Mortgage Banks in 1953-54:[1]

	Central Land Mortgage Banks	Primary Land Mortgage Banks
1. Number	9	291
2. Membership ...	49,753	2,65,186
3. Working Capital (Rs.) ...	13,92,66,423	9,55,26,033
4. Loans advanced (Rs.) ...	1,92,39,959	1,40,49,959

Reorganisation of the Primary Society.

Report of the Co-operative Planning Committee.

Multi-purpose Society.

During World War II, the non-credit aspect of the co-operative movement received some stimulus. But the movement in India is still essentially a credit movement and the primary society which forms the basis of the co-operative structure has restricted itself almost entirely to the role of supplying credit. But the supply of credit embraces only one particular aspect of the cultivator's life. The primary society, according to the Co-operative Planning Committee of 1947, should therefore be reorganised so as to take into account all aspects of his life as a whole. This is possible only when primary co-operative societies undertake multiple objectives. That is, the village societies should undertake all those activities which affect the daily life and business of the agriculturists and artisans instead of confining themselves merely to the business of providing credit.

Limited liability should be adopted as the basis of these reformed primary societies, except where unlimited liability has produced good results. In most States the trend of thought is in favour of limited liability.

The need for the extension of the functions of the credit societies beyond the domain of credit to the sphere of non-credit business is very great. Already some of the States have made considerable progress in this direction. They should also serve as agencies for supply and sale, and as they develop their capacity, in course of time, should also act as consumers' societies.

[1] India, 1956.

The following Table gives all relevant facts:

Multi-purpose Societies in (1953-54)

1.	Number	48,659
2.	Membership	24,79,971
3.	Deposits:	
		(Rupees in lakhs)
	(*a*) Members	126·45
	(*b*) Non-members	73·13
4.	Working Capital	1,691·18
5.	Loans issued	873·25
6.	Loans recovered	403·46
7.	Loans outstanding	981·34
8.	Overdues	207·57
9.	Sale of goods	1,087·79
10.	Purchase of goods	816·60

It is necessary to have separate organisations for credit and non-credit (trading) purposes in view of the large volume of business to be transacted and in order to avoid unnecessary mixing up of banking and trading. This would mean that the primary multi-purpose societies would have to be affiliated to *taluka* multi-purpose societies for their trading activities and to central financial agencies for their credit needs and at the top there would be the apex bank, on the credit side and an apex society on the non-credit side.

Co-operative Planning Committee (1945-46).

The Government of India appointed a Co-operative Planning Committee in 1945 "to draw up a plan of co-operative development." This Committee submitted its report in 1946. It emphasized that the expansion of the co-operative movement would provide the best solution of the problem of rural credit in the country. The Co-operative Planning Committee recommended that rather than start a separate organisation like the agricultural credit corporation all types of aid should be given to the Provincial Co-operative Bank to fulfil its function properly.

In the Reserve Bank of India Act, 1934, there was a provision requiring the Bank to submit to the Government in three years proposals for the improvement of the machinery for

dealing with agricultural finance and for an effective liaison between agricultural enterprise and the operations of the Bank; but progress was held up during the war.

Progress.

After World War II the Reserve Bank began to take some interest in the development of Co-operative Credit and the amount advanced rose from Rs. 1½ lakhs in 1946-47 to about Rs. 762 lakhs in 1950-51. The rate of interest charged was only 1½%. The Reserve Bank also raised its subscription to the debentures of the Madras and Bombay Co-operative Land Mortgage Banks from 10% to 20%.

The Rural Banking Enquiry Committee's Recommendations.

For the formulation of a forward policy in regard to rural finance, a Rural Banking Enquiry Committee under the chairmanship of Sir Purshottamdas Thakurdas was appointed in November, 1949. This Committee submitted its report in May, 1950. It recommended that, with a view to encouraging the extension of banking in general, certain remittance and other facilities should be granted to all banks, co-operative and commercial. Special types of assistance, such as cheaper remittance through Post Offices should also be given to Co-operative banks. The Committee also recommended (*a*) the appointment of a small standing Advisory Committee of experts, which would be associated with the Agricultural Credit Department of the Reserve Bank and would meet from time to time to review the results achieved and to make recommendations as to future policy; (*b*) the holding of a factual enquiry into the actual conditions prevailing in India in respect of rural finance; (*c*) making co-operative banks' paper eligible for re-discount under Section 17 (2) (a); and (*d*) alteration of the period of accommodation for seasonal agricultural operations and marketing of crops from 9 months to 15 months. Early in 1951, a conference of experts under the chairmanship of Professor Gadgil was convened for reviewing the role of Reserve Bank in the sphere of rural finance. This conference endorsed most of the recommendations of the Thakurdas Committee. These recommendations were accepted and embodied in the Reserve Bank of India Amendment Act, 1951.

The Reserve Bank has created a separate department to provide banking facilities both in rural and urban areas. The department is in charge of an Executive Director with two other officials, who have specialised in agricultural finance.

Rural Credit Survey Committee.

The Reserve Bank of India undertook a comprehensive survey of the rural credit structure and the condition of the co-operative movement in India in 1951, through a 'Committee of Direction'. The Committee recommended that the State should become a major partner in co-operative institutions at different levels, and that there should be greater collaboration between the Government and the Reserve Bank. The share capital of the State co-operative banks and land mortgage banks should be expanded on the basis of 51 per cent of the shares being held by the State. The Committee further recommended the creation of a State Bank of India. The Government of India accepted the recommendations of the Rural Credit Survey Committee and decided to implement them.

Relations with the State Bank.

The Imperial Bank of India was converted into the State Bank of India in 1955. An integrated programme of co-operative development has been drawn up for the Second Five Year Plan, under which the movement will not be confined to the supply of credit, but will encompass spheres of economic activities such as marketing, processing, warehousing, storage, etc.

Grants made by the Reserve Bank.

During the co-operative year 1955-56 (up to June 15, 1956), credit limits sanctioned by the Reserve Bank to the State co-operative banks for financing seasonal agricultural operations and marketing of crops at a concessional rate of 1½ per cent., *i.e.,* 2 per cent. below the Bank rate, showed a perceptible increase. Total limits sanctioned to 19 of these banks amounted to Rs. 28·16 crores during the year. As regards medium-term loans, with a maturity of between 15 months and 5 years, the Reserve Bank granted loans to the extent of Rs. 1·30 crores at the concessional rate of 1½ per cent. to 9 State co-operative banks during the year. In addition, two State co-operative banks were sanctioned loans at the Bank rate for financing the purchase of yarn to the extent of Rs. 30 lakhs. The Reserve Bank has recently decided to make advances to State co-operative banks for financing the production and marketing activities of weavers' societies at a concessional rate of 1½ per cent. below the Bank rate.[1]

[1] Reserve Bank of India Report, 1955-56.

Central review. It should be noted that, in spite of provincialisation, opportunities for reviewing the movement from a national point of view and for the exchange of ideas are being steadily provided.

International contact. The international aspect of co-operation should not be lost sight of. Many years ago it was urged that an International Co-operative Bank be established, but this has not yet been found feasible. The Horace Plunkett Foundation and the International Co-operative Alliance seek to promote the solidarity and efficiency of the movement on an international scale by celebrating annually the International Co-operators' Day, issuing literature and organising conferences.

Need for training. As the administration of the co-operative system will, under the new set-up, be of somewhat complex in nature, proper training and education of the staff working in the various co-operative institutions is urgently called for. It is to be hoped that the matter will receive due attention of the Government as well as the public without delay.

Economic benefits. The co-operative movement has been productive of considerable good to the country. In respect of economic benefits, it has been calculated that in interest alone the agriculturists, by taking loans from the Co-operative Societies instead of from the village money-lenders, are saving a large amount. Besides, with the progress of co-operation and with credit democratised, money that used to lie in hoards has been released and placed in deposit, capital that would otherwise have been inaccessible has come into the hands of the agriculturist, and old debts have been liquidated in a number of cases. Co-operation has placed within the reach of many cultivators cheap manures and implements, it has tended to help improvement in the breed of cattle, and it has provided the means by which useful information can be disseminated. In Bombay, special societies like those for the hire of cane-crushers, for the maintenance of oil engines for lifting water, have been established. Cultivation and sale of sugar-cane on a co-operative basis are being attempted in some of the States. Another significant development is in connection with insurance, and in several States steps have recently been taken in this matter. It will be interesting to watch the progress of co-operative activities in directions other than credit, particularly in the neglected sphere of consumers' co-operation.

The intellectual and moral benefits have also been immense. The need for signing promissory notes and of keeping accounts has led to a demand for literacy. The criterion for admission into these Societies being a man's character, they have influenced the conduct and behaviour of the members. They have promoted thrift. The fact that the members are responsible for the payment of each other's debts acted as a sort of check on expenditure for unproductive purposes. In some places, litigation has markedly decreased. In a few others, surplus funds have been used to start schools, to provide scholarships, to supply drinking water and to clean roads.

Intellectual and moral benefits.

But the great drawback of the existing system of working of the movement is that sufficient attention is not paid to the basic principles of co-operation. The co-operative movement ought essentially to be a moral and social movement. But the fact that, after the lapse of a half-century, a rigid governmental control has to be maintained over its working shows that the fundamental aspects of the question have been sadly neglected. Co-operation, to be really successful, must be founded on self-help, self-reliance and mutual trust, but it does not seem that sufficient stress has so far been laid on the development of these qualities. So long as the foundations remain weak, a strong and massive superstructure can never be erected. What is, therefore, immediately needed is to take steps to imbue the minds and hearts of the rural population with the true spirit and ideal of co-operation. Unless this is done, the co-operative movement, instead of permeating the inner life of the people, will only affect a small part of its outer existence. If, however, the right goal is kept in view, co-operation will strengthen the moral and social fabric of the country and help in reviving the village corporate life which was shattered completely by foreign subjection.

Drawbacks.

True spirit and ideal.

CHAPTER XX

THE POPULATION PROBLEM

Complexity of the problem.

THE relationship between the population of a country and its prosperity or poverty is one which it is often difficult to analyse. Attempts have been made by writers on Indian economic problems at different times to discover whether India should be regarded as over-populated or not. More recently, some economists have sought to find out the exact optimum for India, that is to say, the number of persons that will secure for the country the maximum average return from the available natural resources and productive organisation. Differences of opinion on a problem like this are natural, and in many cases these differences have appeared on account of the existence of various standpoints from which the problem can be studied.

Increase of population and poverty.

It is not really easy to make a definite pronouncement on the problem of population in India. In course of the decade 1941-51, the population of India increased from 315 millions to 357 millions, the rate of increase being 13·3 per cent. in the whole period. It may seem from this figure that there is taking place an alarming increase in the population of the country. Some persons like Sir John Megaw, a former Public Health Commissioner with the Government of India, asserted many years ago that the pressure of population was one of the chief causes of the extreme poverty of the people, and he predicted that this pressure, if allowed to grow unchecked, would in the near future produce great misery in the country. On the other hand, there were other experts who directed their attention to the rich natural resources of India, and concluded that the country ought to be able to maintain even a large number.

Difference of opinion.

A study of the Indian population problem can be complete only when full account has been taken of the birth-rate, the death-rate, the rate of migration, and the rates of increase of production and wealth. The Census Report of 1921 pointed out some peculiar features of the Indian social system leading to important effects on the growth of population. Among these,

Factors affecting growth of population.

the practical universality of marriage and the importance attached to male issues may be mentioned as factors leading to a generally high birth-rate. On the other hand, poverty, want of education, the insanitary conditions of living, the low standard of life, early marriage with its attendant evils of infantile and maternal mortality, all tended to lead to an inordinately high death-rate. Emigration is an almost negligible factor, the total number of Indians abroad being much less than one-tenth of the net increase of population during 1921-31. The net increase of population is thus the resultant of a set of complex forces acting in diverse directions.

Writing about the increase in population in 1931, the Census Report observed: "This increase, however, is from most points of view a cause for alarm rather than satisfaction. This increase has shocked many. Is the rapidly increasing population a source of strength or weakness? Is it not straining our resources unduly? Does it not stand in the way of our progress? Such questions come before the minds of those who are worried by the increase of numbers."

Is India over-populated?

The implications of this net increase of Indian population were differently interpreted by writers enjoying reputation as authorities on the subject. A. M. Carr-Saunders in his book, *World Population,* after considering the evidence of the vital statistics and of the density of population, concluded that "Indian statistics are compatible with, and may be said to suggest, pressure upon the means of subsistence". He also thought that the position was not improving, and might be deteriorating. Sri D. G. Karve, on the other hand, in his monograph on *Poverty and Population in India,* drew attention to "the falling rate of infant mortality, the comparatively stationary and slightly falling birth-rate, the definitely falling death-rate, and the slightly improving figure for expectation of life at birth" and inferred that "these factors point towards an improving, at any rate towards by no means worsening, population situation". The vital statistics of India give all the indications of an excessive population in relation to the total amount of wealth produced. The very great pressure on land is the most unsatistory feature of the situation. Estimates have often been made by writers on the problems of Indian agriculture of the

'optimum holding' that an average agricultural family should have. These estimates vary from one to another, but, even if the most modest estimate be taken as the standard, it will be found that land in India has to maintain a much larger population than what it properly should. The very low percentage of people depending on trade and industry is another undesirable aspect of the question. When with all this is combined the fact that an appalling amount of poverty exists in the land, one naturally feels inclined to conclude that the population in India is more than what, according to the present-day standards, it ought to be. It has, however, to be remembered that the economic organisation at present prevailing in India pays insufficient regard to the conservation and maximum utilisation of man-power, and it is probable that an improvement of the productive organisation will make it possible for the present population to produce a much larger amount of wealth than is produced now.

Solutions to the problem.

It is difficult, however, to suggest solutions to the problem of population in India. Sri D. G. Karve thinks that the population-condition of our country is in the main only a symptom of social and cultural backwardness, and, according to him, the remedy lies in pushing forward a vigorous programme of social and intellectual reformation. It may, on the other hand, be urged that social reforms may increase the effective rate of increase of population. Prevention of child-marriage, for example, will make it possible for most women to live up to the end of their reproductive age and will increase the rate of birth per marriage. A wider prevalence of widow-remarriage is also likely to produce a similar effect. It is necessary, therefore, to pay more attention to what Sri Karve calls 'intellectual reformation'. The rate of birth can fall perceptibly only when the people have become educated enough to be fully alive to their own responsibilities. The birth-rate depends more upon the culture and the outlook of the people than upon age and duration of marriage. Carr-Saunders suggests that "family limitation is the only way of escape."

Planning Commission's view.

This subject received the attention of the Planning Commission who observed: "The recent increase in the population of India and the pressure exercised on the limited resources of the country have brought to the forefront the urgency of the

problem of family planning and population control. The application of medical knowledge and social care has lowered the death-rate, while the birth-rate remains fairly constant. This has led to the rapid increase in the growth of population. While a lowering of the birth-rate may occur as a result of improvements in the standards of living, such improvements are not likely to materialise if there is a concurrent increase of population. It is, therefore, apparent that population control can be achieved only by the reduction of the birth-rate to the extent necessary to stabilize the population at a level consistent with the requirements of national economy. This can be secured only by the realisation of the need for family limitation on a wide scale by the people. The main appeal for family planning is based on considerations of the health and welfare of the family. Family limitation or spacing of children is necessary and desirable in order to secure better health for the mother and better care and upbringing of children. Measures directed to this end should, therefore, form part of public health programme." Family Planning.

The Commission added: "All progress in this field depends first on creating a sufficiently strong motivation in favour of family planning in the minds of the people and, next, on providing the necessary advice and service based on acceptable, efficient, harmless and economic methods. But these presuppose (1) intensive studies about the attitudes and motivations affecting family size, and techniques and procedures for the education of the public on family planning, and (2) field experiments on different methods of family planning as well as medical and technical research."

A fairly large sum was allocated by the Central Government in the Plan of the Ministry of Health for a family planning programme. Programme.

This question was given an additional importance by the observations made in the Census Report (Vol. I, Part I-A), published on the 1st August, 1953. It was remarked "that (unless the rate of growth of population is checked by contraception or a breakdown of food supply of such a serious nature as to entail a return to the abnormal mortality conditions of 1891-1900) population will increase during 1951-80 at a faster Opinion of the Census Commissioner, 1951.

rate than during 1921-50.[1] But if we draw the moral correctly from the many unmistakable signs which go to show that the law of diminishing returns is in effective operation, we should make up our mind to face the fact that our effort to keep pace with unchecked growth of population is bound to fail at some point. The conclusion reached is that even with the best efforts we would probably succeed in increasing productivity only by about one-third of the present level; whereas it is necessary that the increase should be in excess of one-half of the present level, if we are to succeed in 'keeping pace'.... In recent years, the population problem is debated in almost all countries of the world and very varying views are held. First, there are those who hold that the practice of contraception is sinful. A sinful thing could not be necessary. . . . Secondly, there are those who think that the population may grow to any extent—it is always possible to organise their activities in such a way as to produce the food and all other goods and services needed for an ever-rising standard of living for all of them. Thirdly, there are those who agree that the growth of population should be checked; but maintain that there is no need for the Government to mix themselves up too prominently in such a delicate and controversial matter."

Different views on the problem.

Objective.

The objective is thus defined in the Report: "The task before the nation is first of all to bring about such a change in the climate of public opinion that every married couple will accept it as their duty (to themselves, to their family, and to that larger family—the nation) that they should avoid improvident maternity." It is recommended that "an adequate number of maternity and child welfare centres should be set up and they should be so sited as to establish practically complete coverage over all villages and towns."

Recommendation.

Impracticability of family planning.

But this family limitation cannot be brought about unless the people have attained a sufficiently high level of education. In a country where the percentage of literacy is even now below 15, it is perhaps too much to expect that family limita-

[1] Year	Population (in crores)
1951	36
1961	41
1971	46
1981	52

tion will play any considerable part in relieving the situation. The only effect of widespread propaganda and the establishment of family planning centres throughout the country will be a huge waste of money.

Panikkar's views.

Spatial distribution desirable.

A well informed diplomat, Sri K. M. Panikkar, wrote in 1950: "Clearly what we require is a population policy which will take into consideration the problems of spatial adjustment and a long period programme in respect of food production which will bring the abandoned lands under the plough, and also by improved methods change the quality of land, and make it yield more."

Sir M. Visvesvaraya's view.

According to Sir M. Visvesvaraya, the veteran statesman, engineer and industrialist, "by removing unfavourable conditions with steadfast perseverance in a settled national policy, by the introduction of science, modern machinery and up-to-date business methods, the production of the country from agriculture and manufactures could be doubled within the next ten and trebled in fifteen years."[1]

Lupton's opinion.

The same view has been advocated by Arnold Lupton who said that "this great country and this great people with its enormous well-ordered population sufficient for all work it has to do, could, if wisely guided, support double its present number in health, plenty and pleasure."[2]

Solution.

It is possible to approach the problem from a rational standpoint. The problem of population should not be regarded as solely dependent on agriculture, because if the wealth of the country increases as the result of greater effort in the domains of industry and commerce, India would be able to maintain a larger population in comfort and contentment by importing food from abroad. Malthus pointed out more than a century and a half ago that, while agricultural production increased in an arithmetical progression, population had a tendency to increase in a geometrical progression and gave the advice to his countrymen to check population as otherwise a dismal fate would overtake England. But, in spite of his country ignoring his advice, she rose to a great height of prosperity and happiness. The problem is realy one of efficient all-round production and equitable distribution. An

[1] Visvesvaraya, *Reconstructing India*, p. 10.
[2] A. Lupton, *Happy India*.

increase of productive efficiency and a consequent increase of wealth may solve the problem more early than artificial measures. A large extension and substantial improvement of cultivation coupled with the supply of subsidiary occupations, a more intensified effort in developing the industries,—cottage, small-scale and large-scale,—and a more rapid expansion of internal trade ; external commerce, banking, transport, shipping and insurance may give more employment to the people and support a larger population in comfort, prosperity and wellbeing. Free and compulsory education in the primary stage and the improvement and diversification of education in the higher stages together with a thorough reorganisation of the productive structure, will certainly be successful in bringing into being a better state of affairs.[1] Wise and far-sighted statesmanship can convert India's vast population from a source of weakness to a source of strength.

[1] As Mr. Lad observes, "the time spent in lamenting the inordinate increase in the population of the poor would be far better spent in arranging effective measures for the removal of their destitution."—*Economic Problems of Modern India*, vol. i.

CHAPTER XXI

INDUSTRIAL LABOUR

1. GENERAL REMARKS

One of the most important problems of the present-day industrial system is that of the relations between the employers and the labourers. Though the percentage of the total population of India engaged in factories is not large, the problems of labour here are as important as in any other country. Public opinion in recent years has been insistent upon better conditions of employment for labourers, and the labourers themselves are fast becoming conscious of their own rights.

Importance of the labour problem.

A complaint is often heard about the scarcity of labour supply in factory areas. The reasons for the apparent paradox of scarcity of labour in a large country like India with its vast population are to be found in the peculiarities of the social system and the special characteristics of the people.

Peculiarities of labour supply.

In the first place, the supply of industrial labour in India comes generally from certain limited areas. The region comprising Bihar (including Chota Nagpur), eastern districts of Madhya Pradesh, the northern parts of Madras, and a few districts of Uttar Pradesh constitutes the largest and the most important source of labour-supply in India. In West Bengal, local labour for the mills has always been scarce, and in the Assam tea gardens a very large part of the labour-supply comes from Bihar and Uttar Pradesh. Secondly, the permanent labour-population is not yet large. Labourers are generally casual migrants from villages, coming to the factories on account of economic pressure, or for earning some cash and returning to their villages as soon as it is possible for them to do so. The families of the labourers are often left behind in the old homes and, consequently, the factory-labourers are not able to sever their ties with the villages. The result is that the factories have to maintain a large number of labourers on the muster-roll, and they have to deal always with new and inefficient hands. The problem of recruitment of labour thus remains almost a perennial one.

Labour-supply region.

Ineffi-ciency of Indian labourers.

Much has been said by writers on Indian economic problems about the inefficiency of Indian industrial labour, and attempts have often been made to calculate mathematically the amount of inefficiency by comparing the average Indian labourer with the average English labourer. One can easily see the theoretical and practical limitations of such calculations. The Indian labourer has to work in many cases under inefficient leadership and with out-of-date instruments and appliances. The enervating, and in some parts unhealthy, climate and the weak physique of the labourer also are contributory factors. His standard of living is very low. If we take into consideration the lack of education and technical training, the lack of discipline and organisation, the habits of loitering and procrastination, and the extent of indebtedness, we get some idea of the causes of inefficiency of the labourers of India.

Causes.

2. LABOUR LEGISLATION TILL 1936

Labour welfare schemes.

Labour welfare schemes sponsored by the Government and the factory-owners play a very important part in every country in which attempts are made to reconcile the conflicting interests of the labourers and the employers. These schemes are beneficial in two ways. They keep the labourers satisfied and well-disposed towards the employers and thus help to obviate strikes. They also help to raise the standard of living of the workers, thus increasing their efficiency. Co-operative credit societies and co-operative stores are also of some help to the industrial workers.

Hours of work.

One of the most important problems of employment of labour is that of hours of work. In India the movement for restriction of hours began in the last quarter of the nineteenth century, and made gradual progress. The first Factory Act was passed in India in 1881 mainly on the insistence of Lancashire textile interests, who claimed that the Indian mills had been getting an unfair advantage over them by employing children and women without any restriction. This Act prohibited the employment of children below 7 in any factory, also laid down that young persons between the ages of 7 and 12 must not be made to work in any factory for more than 9 hours a day and that they must be given 1 hour's daily rest and 4 holidays every month. Amendments to the

Factory Act of 1881 were made in 1891, 1922 and 1934, for further raising the minimum age for employment with special emphasis on children and women. As a result of these amendments the minimum age for employment of children was made 12 years, and the hours of work for children between 12 and 15 years was made 5 per day. For adult labourers, a standard limit of 11 hours a day and 60 hours a week was fixed, and provision was made for an interval of 1 hour after every 6 hours. In the case of perinneal factories the limits set drawn were 54 a week and 10 a day. The employment of women at night was prohibited.

Mines Act, 1935.

Legislative enactments and rules were specially made for regulating the employment in mines. Under the Indian Mines (Amendment) Act, 1935, the maximum hours of work were limited as follows: Above ground, 54 a week and 10 in any day; below ground, 9 hours a day. Children under 15 were excluded from employment. Rules were also in force for excluding women from underground work by a gradual process.

Workmen's Compensation Act, 1923, 1933.

Attempts were also made by the legislature to bring relief to the labourers in other ways. The Workmen's Compensation Act of 1923 introduced the principle of compensating the labourers in cases of death or disablement arising from any cause connected with their work. In 1933 the scales of compensation were revised.

Payment of Wages Act, 1936.

In 1936, a Payment of Wages Act was passed to regulate the period of, and delays in, wage-payment, and also to control many of the illegal deductions that were often made by the employers from the wages of the labourer. The Act required payment of wages with 7 days of the conclusion of the wage-period.

Trade Disputes Act of 1929.

Legislation for settling labour strikes was introduced by the Trade Disputes Act of 1929. Under the provisions of the Act, the Government was empowered to appoint a *Court of Enquiry* or a *Board of Conciliation*. The Court or the Board tried to bring about a settlement, but the decision was not legally binding on the parties concerned. Strikes and lockouts in public utility services without proper notice were made illegal. It was also provided in the Act that strikes and lockouts declared for causes extraneous to the industry concerned or intended to cause "severe, general, and prolonged" hardship

upon the people were to be regarded as illegal. In some provinces special officers were appointed to deal with labour disputes.

Trade Unions Act of 1926.

A strike is a double-edged weapon. If properly handled, it can be of great use to labourers. But its potency for mischief is equally great. In cases where it is improperly used, it may do a great deal of harm to industry as well as to the labourers themselves. A strike should, therefore, be resorted to only when there is no other way of settling a dispute. The Trade Unions Act of 1926 empowered labour organisations to get themselves registered.

3. LABOUR LEGISLATION, 1937-56

Labour legislation in India, in its initial stages, was partly inspired by clamour from the British industrialists in addition to the well-meaning efforts of Lord Shaftesbury. With growing industrialisation, labour has to-day come to occupy an important place in the country's life both in respect of number and strategic position. By dint of its own inherent right, labour has increasingly engaged the attention of the Government.

Pre-war position.

From that view-point, a review of recent labour legislation in India may well start from the year 1937 when popular ministries with effective power were for the first time installed in the provinces, though for a short period, under the Government of India Act, 1935. Their work, though disrupted for the time being on the out-break of the Second World War, was resumed after India gained her Independence. Even for the interim war-period numerous emergency measures had to be taken for ensuring the maximum utilisation of the country's resources for the purpose of war. The result was that from the year 1937 onwards we have an unbroken record of significant labour legislation.

World War II.

Independence.

We may broadly divide the legislation into (A) legislation concerning labour in specific undertakings, and (B) general legislation applicable to labour as such irrespective of the undertaking it might belong to.

(A) *Legislation relating to specific undertakings.* The following items may be noted under this head:

Factories.

(*a*) Since 1937, the scope of the Factories Act enacted in 1934 by the Government of India had been considerably

extended, and the rights it conferred on workers were enlarged by a series of amendments enacted in 1940, 1941, 1944, 1945 and 1947. The whole of this legislation was recast in 1948.

The Factories (Amendment) Act, 1940, was designed to prevent the exposure of children to exploitation and employment under unhealthy and dangerous conditions in the smaller industrial establishments using power. The Factories (Amendment) Acts of 1941 and 1942 removed some administrative defects revealed in the working of the Act. The three amending Acts passed since 1944 substantially contributed to the benefits enjoyed by the factory workers by securing for them annual holidays with pay and a 48-hour week, and by imposing on the owners and managers of the larger factories an obligation to provide canteens for workers. Through these provisions the Indian labour conditions were brought into closer conformity with those enjoined by the relevant International Labour Conventions.

The provincial Governments made some amendments to the Act in their respective jurisdictions.

The result of the various amendments was the provision for higher standards of labour protection, particularly in respect of hours of work, holidays with pay, and employment of children. Nevertheless a necessity was felt for protective provisions for large numbers of smaller industrial establishments which were then outside its scope and also to strengthen its provisions relating to safety, health and welfare of workers. An entirely new Act was therefore passed in 1948. In framing this Act the Government tried to implement many provisions of the I.L.O. Code of Industrial Hygiene. Certain minor amendments to the Act were made in 1949 and 1950.

A further amendment to the Factories Act, 1948 was made in 1954. It was necessitated by the ratification by the Government of India of I.L.O. Conventions prohibiting employment of women and young persons in factories during night.

Industrial Employment (Standing Orders) Act, 1946.

Another important legislative measure was the enactment in 1946 of the Industrial Employment (Standing Orders) Act. This Act seeks to define the rights and obligations of the employer and the worker in respect of recruitment, dicharge, disciplinary action, etc. which had been found to be among

the most frequent causes of friction between labour and management.

Workshops.

(*b*) A large number of wage earners are employed in small manufacturing establishments which do not use mechanical power and therefore fall outside the scope of the Factories Act. They escaped legislation until 1937. Between 1937 and 1952 five important legislative measures were passed to regulate working conditions in them. Three of them were Central, relating to the employment of children; the other two were provincial and more general in character—the Central Provinces Unregulated Factories Act of 1937 and the Madras Non-power Factories Act of 1947.

With the coming into force of the Factories Act, 1948, from April 1949, the two State Acts, however, became redundant and were subsequently repealed. Most of these unregulated factories are now covered by the Factories Act.

Shops and offices.

(*c*) A remarkable feature of labour legislation since 1937 is a great number of laws passed during the period to regulate conditions of work in shops, commercial establishments, restaurants and theatres. Before 1937 there was hardly a measure of this kind.

The Weekly Holidays Act passed by the Centre in 1942 was permissive and became effective in a province only if its Government choose to apply it. Among the State Governments Bombay led the way. By 1950 such legislative measures were in force in all Part A States except Orissa and in most of the important Part B and C States.

All these Acts contain provisions in respect of opening (except in Assam) and closing hours, hours of work and rest intervals, spread-over, overtime rates (except in Assam), and weekly holidays. Most of these include provisions for the protection of children and young persons.

Mining.

(*d*) The basic law regulating working conditions in mines in 1937 was the Indian Mines Act, 1923, as amended on various occasions. The main developments since 1937 comprise the extension of safety and welfare measure in mines and the introduction of a new principle of financing these measures by the levy of a cess on output, the grant of maternity benefit to women workers, the setting up of a tripartite committee to advise the Government on matters relating to the coal industry,

the introduction of schemes for the payment of bonus and the establishment of a provident fund for workers. As more than three-fourths of the total number of mine workers were employed in coal mines, greater attention was naturally directed towards collieries, though workers in mica mines have also begun to attract attention.

In order to bring the legislation regarding mine workers in line with that for factory workers, a new Mines Act was passed in 1952. Mention should also be made of the extension of the Payment of Wages Act to coal mines.

(*e*) The law relating to plantation labour which had been in force from 1932 was the Tea Districts Emigrant Labour Act, 1932. The Act mainly dealt with the regulation of recruitment of plantation labour for the tea gardens of Assam but did not regulate their working conditions. Accordingly, a Plantation Labour Act was passed in 1951 which for the first time regulated the conditions of work and employment of plantation labour. Its provisions were largely based on the Factories Act, 1948. **Plantations.**

Though, in the first instance, the Act applied only to tea, coffee, rubber, and cinchona plantations, the State Governments were empowered to extend its provisions to other plantations subject to the approval of the Central Government.

The Plantation Enquiry Commission, appointed under the Chairmanship of Shri P. M. Menon, in its report in August, 1956, recommended for the setting up of a Plantation Labour Welfare Organisation controlled by the Central Government. Regarding the payment of bonus, the Commission said that any scheme that might be evolved should incorporate the following essential requirements: (1) Depreciation allowance should be separately funded and drawn upon only for expenditure on replacement and renewal of fixed assets, (2) the tea Replanting Fund should be set apart, (3) after providing for taxation, a statutory reserve for meeting development expenditure and unforeseen charges should be built up, (4) a minimum dividend provided for as a percentage on share capital from what was to be left over, (5) the remainder should be divided between the shareholders and labour and staff according to a suitable formula, the details of which should be worked out.

Transport.

(*f*) In 1937 legislation concerning conditions of work in communications was limited to only railways and port services. Since 1937 both the scope and the extent of the protective labour legislation in this sphere has undergone great expansion. The more important among the measures adopted are the raising of the minimum age for the employment of children on railways and docks from 12 to 15 years, the progressive extension of the Hours of Employment Regulations to all the major railways, the ratification of the International Convention relating to dockers, promotion of continuous employment and elimination of the evils of casual employment.

During the last few years the principle of statutory regulation of the conditions of work has been extended to cover a new class of transport workers, namely, those engaged in motor transport, through the provisions of the Motor Vehicles Act, 1939.

Seafarers.

(*g*) The conditions of the employment of Indian sea-men are regulated by the provisions of the Indian Merchant Shipping Act, 1923. The Indian Merchant Shipping (Amendment) Act, 1949, provides for the setting up of Sea-men's Employment Offices at ports for regulating the supply of maritime labour. And the Indian Merchant Shipping (Amendment) Act, 1951, ensures, among other things, the physical fitness of sea-men.

(B) *General.* Now we shall come to general legislation. We may note the following items under this category:

Wages.

(*a*) The real achievements in the sphere of wages legislation consist in (*i*) the progressive extension of the provisions of the Payment of Wages Act to cover new classes of wage earners, and (*ii*) the adoption of the Minimum Wages Act, 1948, which for the first time in India provided for the statutory fixation of minimum rates of wages in a number of establishments including plantation and agriculture. Provision has also been made under the Factories Act, 1948, and the Mines Act, 1952, for payment for over-time work at double the ordinary rates.

Payment of Wages Act, 1936.

(*i*) In 1938 the provisions of the Payment of Wages Act, 1936, were extended by the Government of C.P. and Berar (Madhya Pradesh) to establishments engaged in bidi making, leather tanning and shellac manufacture to which the Central Provinces Unregulated Factories Act, 1937, was applicable. In

1942 Madras, Orissa and Sind extended the Act to all industrial establishments employing ten or more workers. In 1948, coal mines and in 1951 all mines were covered. The Act had been further applied to motor omnibus services in Assam, Bihar, Madras, West Bengal, Mysore, Coorg, Delhi and the Punjab; to plantations in Assam, Bihar, West Bengal, Madras, Mysore, the Punjab and Coorg; to inland steam navigation services in Assam and Bihar; to printing presses in Uttar Pradesh; to Government and private transport concerns in the Punjab; to dockyards in Bombay, etc.

The Payment of Wages Act, however, seeks only to ensure the regular payment of wages and to prevent the exploitation of the wage earners by arbitrary deductions and fines. But the Act was inadequate because it did not help the worker much to secure a living wage. The Payment of Wages Act had, therefore, to be supplemented by the Minimum Wages Act, 1948.

Minimum Wages Act, 1948.

(*ii*) After prolonged discussion in the successive meetings of the Standing Labour Committee and the Tripartite Labour Conference the Act was passed in 1948. It may rightly be called a landmark in Indian labour legislation.

It covers all the States except the State of Jammu and Kashmere. It applies to a number of establishments which are listed in a schedule appended to the Act and may be extended by the appropriate Government to any employment. Employment in agriculture constitutes part II of the schedule. The Act applies not only to regular employees but also to the outworkers in the scheduled employments.

The Act requires the appropriate government to fix, before the expiry of three years from the commencement of the Act in the case of employment in agriculture, and of two years in the case of the minimum rates of wages payable to employees in all scheduled employments. The employers of any such undertaking is bound to pay his every employee at a rate not less than the minimum wages fixed. The Act further provides for review, at intervals not exceeding five years, of the rates so fixed. It also contains provisions regarding normal working hours, etc.

But most of the Governments being unable to act by the stipulated date, the Central Government promulgated the

Minimum Wages (Extension of Time) Ordinance in June, 1950, extending for one year, the stipulated date in respect of employments other than agriculture. The period was further extended to 31 March, 1952, for employments other than agriculture and 31 December, 1953, for agricultural labour. The Minimum Wages (Amendment) Act, 1954 was passed for extending the time-limit up to 31 December, 1954.

After providing protection against wages being pushed below a prescribed minimum, the Government turned its attention towards the determination of fair wages. The Fair Wages Bill, introduced in Parliament in 1950, however, lapsed with the dissolution of the Provisional Parliament.

A Wage Board was established for working journalists under the Working Journalists (Conditions of Service and Miscellaneous Provisions) Act, 1955, which submitted its report in May, 1957, fixing wages for different categories of journalists.

Trade Unions.

(*b*) Throughout the period under review the Trade Union Act of 1926 continued to be the basic enactment for the legislation of the trade unions. It provided for the registration of trade unions complying with various specified requirements, but it imposed no obligation to recognise and deal with such registered unions. The gap was sought to be filled up by the Indian Trade Unions (Amendment) Act of 1947, which provided for compulsory recognition by employers of representative trade unions by orders of a labour court.

On the basis of discussions in the Standing Labour Committee the Trades Union Bill was introduced in 1950. Though primarily a consolidating measure, it contained some new provisions. It, however, lapsed with the dissolution of Parliament.

Trade Disputes Act.

(*c*) In 1937 two important labour enactments dealing with trade disputes were in force. One was the Trade Disputes Act, 1929, which was a Central measure. The other was the Bombay Trade Disputes Conciliation Act, 1934. Since 1937, however, the scope of trade disputes legislation has undergone considerable extension both at the Centre and in a number of provinces.

Central Legislation.

The Trade Disputes Act, 1929, was amended by the Central Government in 1938 to provide that the Government concerned

might appoint conciliation officers. It also extended the scope of the term 'trade disputes' to cover disputes between workmen and workmen, included water transport and tramways under public utility service and made the provisions concerning illegal strikes and lockouts less restrictive. The position remained unchanged until 1942 when the imperative need to prevent the war effort being impeded as a result of industrial disputes led the Government to adopt a more positive attitude towards the settlement of industrial disputes.

In January, 1942, and in 1943 the Government of India Rules were amended for restraining strikes and lockouts and concerted cessation of work in a place of work.

Industrial Disputes Act.

These emergency war-time legislative measures ceased to have effect from September, 1946. But the experience since acquired convinced the Government of their utility and led it to incorporate them in the permanent labour legislation of the country. The Industrial Disputes Act was accordingly passed to replace the Trade Disputes Act of 1929.

While retaining most of the provisions of the earlier law, the new Act introduced two new bodies for the prevention and settlement of industrial disputes—works committees and industrial tribunals. The Act also imparts a new orientation to the conciliation machinery by making prior resort to the conciliation machinery compulsory in all disputes in public utility services and optional in the case of disputes in other establishments. Strikes and lockouts are also prohibited during the pendency of conciliation and adjudication proceedings.

A number of amendments were made to the Act during the period 1949-52 dealing with difficulties resulting from (*i*) piecemeal adjudication of disputes in concerns having branches in more than one State, (*ii*) lack of uniformity of awards relating to such disputes, and (*iii*) the absence of a Central appellate authority. The Amendments have also been made to include within the scope of a general jurisdiction units in which no disputes might actually exist.

The Industrial Disputes (Amendment) Act, 1953, further extended the scope of the Act since it provided payment of compensation to workmen in the event of their lay-off and retrenchment.

With a view to ensuring expeditious disposal of applications under Sections 22 and 23 of the Industrial Disputes (Appellate Tribunal) Act, 1950, the Act was amended for the disposal of such applications by Industrial Tribunals constituted under the Act, or by a single member of the Labour Appellate Tribunal. Consequent on the Government accepting the recommendations of Shri Justice P. B. Gajendragadkar on the the Bank disputes, the Industrial Disputes (Banking Companies) Decision Act, 1955, was enacted in October, 1955, to give effect to his recommendations.

The Industrial Disputes (Amendment and Miscellaneous Provisions) Act, 1956, provides for setting up of a three-tier machinery—Labour Court, Tribunal and National Tribunal, all with original jurisdiction—in place of the then existing ones, for the settlement of industrial disputes.

State Legislation.

Besides Bombay which has amended its legislation, Madhya Pradesh and Uttar Pradesh passed trade disputes laws by way of supplementing the provisions of the Central Act of 1947.

Social Security.

(*d*) In the sphere of social security, the period under review has seen considerable progress. The main achievements consists in (*i*) a steady extension of maternity benefit to new areas and new classes of wage earners; (*ii*) extending the scope of the Workmen's Compensation Act, 1923, to workers on monthly wages not exceeding 400 rupees ; (*iii*) the enactment in 1948 of the Employees' State Insurance Act superseding the main provisions of the various Maternity Benefit Acts passed in the different provinces (States) at different times, and the formulation, for the first time in India, of an integrated scheme of insurance against sickness, maternity and employment injury, to be applied initially in non-seasonal factories but capable of being extended progressively to workers in other classes of establishments—industrial, agricultural, commercial and other establishments ; this scheme made substantial progress in 1955 ; and (*iv*) the inauguration again for the first time in India of a scheme of compulsory provident fund for colliery-workers and also for employees in certain classes of factories in specified industries. The working of the Employees' Provident Funds Act, 1952, revealed some defects and administrative difficulties necessitating the enactment of the Employees' Provident Funds (Amendment) Act in 1953.

The Act covered 4,000 factories with more than 17 lakh subscribers. The total contributions up to November, 1956 amounted to about Rs. 73 crore.

The various Maternity Benefit Acts and the Workmen's Compensation Act were merely measures of social assistance, placing the whole responsibility for payment entirely on the employers. But a scheme of social insurance involves regular collection of contributions from the workers. The migratory character of the labour force and the extremely low level of earnings have delayed so long the introduction of a social insurance scheme.

Industrial housing.

(*e*) Except the Land Acquisition (Amendment) Act which was passed by the Central Government in 1933 to enable employers to secure land for the housing of their employees, very few legislative measures were undertaken till recently to improve the housing conditions of workers. But the recent rapid growth of population and the expanding idea of social justice led the Central and State Governments to enact certain measures on the subject.

Housing is one of the welfare measures to be financed by the funds constituted under the Coal Mines Labour Welfare Fund Act and the Mica Mines Labour Welfare Fund Act. The Plantations Labour Act, 1951, requires every employer to provide houses for their resident labour.

Among the States, Bombay took the lead in 1948 and the Bombay Housing Board Act was passed. Mysore, Madhya Pradesh, West Bengal and Uttar Pradesh followed suit.

In 1949 the Government of India formulated a scheme for the housing of industrial workers. But the response from the State Governments was not satisfactory. The Central Government has, therefore, evolved a new scheme for providing houses through the agency of State Governments, housing boards and co-operative societies by means of subsidies and loans on easy terms. The construction of about 50,000 tenements was completed till the end of November, 1956.

At a meeting of the Labour Ministers of the States, held under the presidentship of the then Union Labour Minister, Sri Khandubhai Desai, at New Delhi on the 27th and 28th

December, 1956, it was decided to set up Wage Boards for a few selected industries of national importance.

Comment. Thus we see that the record of achievements in labour legislation during 1937-56 is quite impressive. Of even greater importance is, however, the evolution of a regular tripartite machinery for frequent consultations between Government, employers and employees, and the establishment of tripartite industrial committees for major industries. This is a legacy we have inherited from the Second World War, but here we find a new insistence on the recognition of labour not as a junior partner in industry entitled merely to a living wage but as an equal partner with capital.

We have thus causes to expect that during the next few years a steady extension of statutory protection to new classes of wage earners, a progressive widening of the social security measures to cover all the more gainfully employed population and a systematic raising of standards of labour protection bringing them into closer conformity with the provisions of the International Labour Code.

The attitude of the present administration of India towards labour is one of goodwill and beneficence. In the Constitution of India provision was made for fully safeguarding the interests of labour. Since then serious attempts have been made to secure a fair deal to labour. Our brief review of recent labour legislation abundantly proves that promotion of the best interests of labour is one of the main objects of the Government. Some disinterested persons have expressed the opinion that labour legislation has proceeded too far and has been prejudicial to the larger interests of the community as a whole.

Industrialists' view. The general opinion of the industrialists is that the recent legislation has increased the general level of wages, enforced payment of liabilities of many other sorts, curtailed the power of employer to enforce disciplinary measures or to rationalise in order to step up production. And that as a result has produced an adverse effect on both the incentive to invest and to develop other resources internally available for investment.

But whatever may be the views and sentiments of industrialists, they have loyally accepted the labour policy of the Government. It is now the turn of labour to do its duty. It should take a wise and far-sighted view of its obligations to

the country and do its best to make a suitable contribution to India's industrial regeneration.

4. PROFIT-SHARING

Industries Conference, 1947.

At the Industries Conference convened by the Government of India in December, 1947 it was frankly recognised that improvement in employer-labour situation was the most important pre-requisite to increased production. The Conference arrived at a general agreement which was embodied in what came to be known as the Industrial Truce Resolution. Among other things the Resolution recommended a readjustment of remuneration to capital and labour. Both capital and labour were to share the product of their common effort after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking. This readjustment was sought not as an end in itself but as a means to the establishment of industrial peace and the increase of production. The Government of India, while accepting this Resolution as part of their industrial policy, laid particular stress on this object by stating that labour's share of the profits of industry should be on a sliding scale normally varying with production. A Committee on Profit-sharing consisting of 14 members representing industry, trade, commerce and some departments of the Government was appointed in 1948 under the Chairmanship of the Secretary, Ministry of Industry and Supply by the Government of India to implement their policy.

Profit-sharing Committee, 1948.

Profit-sharing was defined as an agreement freely entered into by which the employees received a share fixed in advance of the profits. In the typical profit-sharing scheme no attempt was made to modify interest or ordinary wages.

Committee's opinion.

The Committee on Profit-sharing were of the opinion that profit-sharing on a sliding scale varying with production was not practicable. Although profit-sharing by statute had been introduced compulsorily in some smaller countries, the Committee believed that it was too early to benefit by their experience. Schemes of profit-sharing on a voluntary basis were common as distinguished from any compulsory scheme. The Committee, therefore, considered that it would be advisable to propose a scheme which would be applicable to six well-estab-

lished industries, such as (1) cotton textiles, (2) jute, (3) steel, (4) cement, (5) manufacture of tyres and (6) manufacture of cigarettes, which would be tried out in the first instance for a period of five years. It was emphasised that the main reason for recommending this experiment in profit-sharing was the promotion of industrial peace, and its benefits in any year would be withheld wholly or partly from workers who in that year participated in a strike declared illegal by a competent authority.

Unit-wise scheme. The Report dealt at length with the question whether labour's share should be distributed by each undertaking or by each industry or industries as a whole in each region or for all industrial undertakings in the country. Unit-wise profit-sharing was finaly recommended as the worker should have a direct interest in the fortunes of the concern in which he worked. To begin with, profit-sharing on an industry-cum-locality basis should, according to the Committee, be tried out in the cotton textile industry in Bombay, Ahmedabad and Sholapur.

The proposal recommended, however, meant not only share of profits, but payment even when there were no profits. Under the scheme suggested for experiment, the workers of units which made no profits would also get a share. Thus it involved payment of minimum bonus by units which either incurred a loss or made a profit less than the average profit of the industry. **Inequities.** A further inequity under the arrangement was that in units where the amount of profit due to labour exceeded the sum required to pay the minimum bonus, such excess would also have to be paid to the workers of that unit. This would naturally result in workers in the same industry and same region getting different amounts. Thus the proposal carried with it the germs of discontent.

Notes of Dissent. Several members of the Committee appended notes of dissent. Professor Radhakamal Mukherjee, a prominent member of the Committee, dissented from the Committee's plan of profit-sharing which was delinked from output. In the then existing grave crisis in the country arising out of the reduction in industrial production, he thought it was desirable to link it with output.

It was also pointed out that the working of profit-sharing schemes in foreign countries revealed several limitations. Profits

are influenced by a large variety of factors outside the orbit of individual establishment and worker's efforts have very often little bearing on the fortunes of individual ventures. These might very frequently be depleted as a result of managerial inefficiency. A situation might develop when mutual accusations may result in increasing bitterness and antagonism between the workers and employers. The method of accounting followed by the employers was often questioned by the workers. Thus, instead of harmonising their interest and promoting mutual co-operation and goodwill, profit-sharing proved to be a source of industrial dispute. The experience of other countries working profit-sharing schemes did not warrant the belief that it was likely to be successful in India.

Merits and defects.

Profit-sharing is a good ideal, but to what extent it is practicable can be ascertained only as the result of experiment. In the industrially advanced countries like the United States and Britain, where it is optional, it has not made much headway. It has been made compulsory recently in a few less advanced countries. The merits of the system may be summarised thus: (*i*) It acts as an incentive to production either directly or indirectly; (*ii*) it tends to create an identity of interests between capital and labour; (*iii*) it fosters a spirit of co-operation and harmony; and (*iv*) it encourages thrift. The demerits are: (*i*) the method of accounting by which profit is calculated is an intricate one, and labour may not always regard it as satisfactory; (*ii*) it is a one-sided arrangement in that labour participates only in profits, but not in losses; and (*iii*) when profits do not occur, labour becomes resentful, and its goodwill is replaced by discord which may prejudicially affects industry. Experiments, however, are worth making in selected industries on a voluntary basis. If the results of these experiments are favourable, the system may be extended to other industries.

5. LABOUR PARTICIPATION IN MANAGEMENT

A new move has been started recently for giving labour a share in the management of industries. The Government think that workers must have the feeling that they are not only wage-earners, but are part and parcel of the industrial production and that they are as important in stature and status as the management itself. The necessity of giving such

position to labour has been felt more urgent in view of the new social order of establishing a Socialist pattern of society through peaceful and democratic means. The Labour Panel of the Planning Commission has also approved of this idea. A former Union Labour Minister Sri Khandubhai Desai announced in the Lok Sabha that the Government had been seriously considering as to how the scheme for Labour's participation in management would be implemented.

This proposal is generally welcomed by the labourers. But a section of the labourers, presumably under the influence of the Communists, feel that, under the existing conditions of Labour in India, no useful purpose will be served by mere participation of Labour in management.

The industrialists of the country do not also favour the idea. In their opinion, the labour movement in India, to-day, is mainly controlled by the political parties, and not by the labourers themselves, and as such, the participation of labour in management will increase nothing but manoeuvering.

Labour is one of the most important factors of the machinery of production, and it should therefore be given its due position in the management of industries. But in view of the prevailing ignorance of the labourers, any such scheme should be implemented by stages and not at one time. Moreover concrete steps should be taken for improving the condition of the labourers with a view to creating a better relation between the industrialists and labourers, which will be very necessary for their joint-functioning in the development of industries.

CHAPTER XXII

TRANSPORT AND COMMUNICATIONS

1. RAILWAYS

UNTIL the time of Lord Dalhousie, the construction of railways in India was neglected. The first railway line in India was opened by the G. I. P. Railway Company in 1853, connecting Bombay and Thana. In the following year, the East Indian Railway Company opened a line between Howrah and Hughli. After the Sepoy Mutiny, the strategic importance of railways was fully realised, and railway construction proceeded at a rapid pace.

Objects of railways: strategic and administrative.

Though the primary objects of the construction of railways were strategic and administrative, their economic effect has been immense. Cheap, easy, and quick communication enables the surplus population of congested areas to move to the more thinly populated parts of the country where labour alone is needed to make the soil yield bountiful harvests. There the people can turn their labour to better account and command higher rates of remuneration. The railways have helped to equalise to a large extent prices in the different parts of the country. Under their influence, the whole of India is fast tending to become one market for the more important articles. The value of railways is most realised in periods of famine. Famines are rarely universal throughout India. Generally, they affect particular tracts, and it often happens that when one area is suffering, another has an abundant harvest. The railways have made it possible for the deficiency of the former to be made good out of the surplus of the latter. They have thus greatly helped in mitigating the sufferings of the starving population. Besides, the railways have given a great impetus to the economic and other activities of the people. The influence of railways on the moral and social life of the people has also been considerable. Their political effect is seen in this that they have made possible an efficient system of centralised administration.

Economic effects: equalisation of population, equalisation of prices, mitigation of the horrors of famine, impetus to activity.

Economic, social, moral, and political effects.

Indirect

The railways have also yielded substantial benefits in an indirect way. The purchase of rails and other railway materials in India has given a considerable stimulus to the Indian iron and steel industry. Now that locomotives are being constructed in this country the steel industry is receiving a further impetus. Indian timber is being profitably utilised to serve as sleepers and as material for building the passenger-coaches. Besides, in normal years the Government expects to realise a considerable income from the railway surplus. During a fairly long period, the Government of India received annually, on an average, about 6 crores of rupees as contribution from the railways.

Disadvantages.

On the other hand, by promoting the importation of foreign goods they hastened the decay of indigenous industries. Besides, the obstruction caused to natural drainage by high-level railroads and the formation of stagnant pools on both sides of the railway lines prejudicially affected the health of the people.

Ownership and control.

Indian railways, in their past history, showed a remarkable diversity of conditions in respect of ownership and control. When the first proposals for the construction of railways were mooted it was agreed that railways should be constructed by companies incorporated in England for the purpose. But the early companies were hesitant, as they were under an apprehension that the poverty of the country would not make such a venture profitable. They therefore insisted on a guarantee by the East India Company of a specified return. It was in 1854 that the policy of entrusting generally the construction of railways to private companies was definitely adopted. The main reason for this policy was that the conduct of commercial undertakings was not considered to fall within the proper functions of the Government of India.

The Guarantee System.

The system which was introduced for the purpose of railway construction in India was known as the Guarantee System. Under it, the East India Company agreed to provide land free, and guaranteed interest on the capital at the rate of five per cent. per annum. Half of any surplus profits earned was to be used towards repaying to the Government any sums by which it had been called upon to supplement the net earnings of any previous period in order to make good the guarantee of interest, and the remainder was to belong to the railway company. The

railways in all respects, with the exception of choice of staff, were placed under the supervision and control of the Government. Further, at the expiration of the term of 99 years the land and works were to become the property of the Government, the rolling-stock and other movable property being paid for at the market value; and the Government had the option of purchasing the line after 50 years on paying off capital, at market value, by granting annuities for the remaining period of the lease.

Unguaranteed companies with fixed subsidies.

Government undertaking construction since 1869.

Re-introduction of the Guarantee system.

The financial loss to the Government under this system was enormous. Therefore in 1869 the Government itself undertook to construct railways. The famines which overtook the country in the seventies, and the havoc they caused, brought the question of speedy railway construction to the forefront. A few years later, however, the re-introduction of the Guarantee System, with terms more favourable to the Government, was made, and several lines were constructed under this system. In the case of some guaranteed lines the Government exercised the option of purchase, but in all cases the option was not exercised. The resulting consequence of this was that railways in India were managed under diverse conditions, and they might be classified into three broad categories: (1) State lines worked by the state, (2) State lines worked by a company, (3) Company lines worked by a company.

Relations with the Government.

The relations which subsisted between the Government and the companies in the past were as follows:

(*a*) The lines that they worked were the property of the state.

(*b*) The greater part of the capital was the property of the Government, either through originally having supplied it or through subsequent acquisition.

(*c*) When the funds were required for further capital expenditure, the Government had the option of either providing them or of calling on the company to provide them.

(*d*) The contracts were usually terminable at the option of the Secretary of State.

Government's control.

The Government also possessed a considerable power of administrative control which was exercised through the Railway Board.

Acworth Committee.

In 1921, an expert Railway Committee under the chairmanship of Sir William Acworth made important recommendations

in regard to the future railway policy of India. The majority of this Committee condemned the then existing system of company management of state railways as essentially unworkable. But the minority favoured the continuance of the system of both state and company management, and desired that the Government should not be committed to a policy of state management for all railways. From past experience, it was argued, it could not be said that the companies had looked to the interests of the country in the same way as they ought to have done, and this was the reason for the insistent demand by the Indian public for the management of Indian railways by the Government. Secondly, the majority recommended that the whole of the capital for the future development of the Indian railways should be raised directly by the state, and loans should be floated both in England and in India.

Separation of the Railway Budget.

But the most important and far-reaching recommendation of the Committee was the separation of the Railway Budget from the General Budget. The Committee recommended that the Finance Department should cease to control the internal finance to the railways. Further, the Committee expressed the view that the railways should be run as a commercial concern and not as an appendage to the general finance of the country. To remedy these defects the Committee recommended a separate budget for the railways, which was accepted by the Government.

The terms on which the railway budget has been separated from the general budget rested upon a convention agreed to by the Assembly in September, 1924. According to this convention, the Central Revenues are entitled to receive from the railways a contribution equal to 1 per cent. of the capital at charge in the penultimate year *plus* one-fifth of the surplus profits in that year. The Assembly also stipulated that, if after payment of the contribution so fixed the amount available for transfer to Railway Reserves should exceed 3 crores, one-third of the excess over 3 crores should be paid to the General Revenues.

Financial results.

The financial results of the operation of Indian railways showed peculiarities of their own. From 1854 to 1898, the total loss resulting from the Indian railways was 58 crores. From 1898 the railways regularly earned annual profits till the year

1930-31. Up to the year 1923-24, the total profits from railways amounted to 114 crores of rupees. After the separation of the railway budget in 1924-25, contributions from the railways to the General Revenues varied between $5\frac{1}{2}$ crores and $6\frac{1}{4}$ crores annually, the total sum received by the Government during this period amounting to 41·65 crores of rupees.

Railway finances during the depression. The year 1930-31 brought upon the railways the serious effects of the trade depression. The railway surpluses began to turn into considerable deficits, and the system could be kept going only by loans from the Reserve Fund and afterwards from the Depreciation Fund. No contributions could be paid to the Central Revenues, and by 1936-37 the outstanding obligations of the railways on this account amounted to 30·75 crores, while the loans from the Depreciation Fund stood at 31·33 crores. This huge fail in railway receipts was due to a number of factors. Apart from the reduced volume of goods traffic, there were other causes, like intense competition from motor buses and from river and coastal steamships.

Wedgwood Committee, 1937. Reviewing the financial position of the railways in 1936-37, the Railway Enquiry Committee of 1937, under the presidentship of Sir Ralph Wedgwood, remarked that there were many adverse factors against which the Indian railways had to, and would have to, contend. The conclusion of the Wedgwood Committee was that the railways should not be regarded as a possible source from which contributions to the General Revenues might be derived. Every endeavour should be made towards placing the railways in an assured position to pay their interest charges in full, and so avoid becoming a burden upon the General Revenues. **Improvement.** From 1936-37, however, the railways again showed surpluses. The actual surplus earned in 1936-37 was 145 lakhs. The revised estimate of the surplus for the year 1937-38 was put at 283 lakhs, while the Railway Member budgetted for a surplus of 256 lakhs in his estimates for 1938-39. The necessity for a vigorous policy of remunerative operation of railways was however, imperative.

Advisory Councils. The Committee laid stress on the importance of giving to the Indian public an adequate voice in the management of their railways, and for this purpose they recommended the establishment of Central and Local Advisory Councils. Under the Order-in-Council issued in accordance with the recommen-

dations of Sir Otto Niemeyer, the provincial share of income-tax receipts would depend mainly on the extent of railway contributions to the federal revenues. The Standing Committee on Railway Finance, partly elected by the Central Legislature, began to exercise some sort of control over financial matters.

Federal Railway Authority. The Government of India Act of 1935 provided for the appointment of a Federal Railway Authority to supersede the then existing Railway Board. This Authority was to be in complete charge of the state railways of India, and would, if necessary, take up the control and management of other forms of transport ancillary to the state railways.

Railway Rates. The question of railway rates had long agitated the public mind in India. The Industrial Commission had pointed out that there were complaints to the effect that Indian railway policy did not tend to foster the industries of the country. It was urged by the public that the governing principle in railway rating should be that internal traffic should be rated as nearly as possible on an equality with traffic of the same class over similar distances to and from the ports. Another charge against railway rating lay in the 'block rates' or higher mileage charges for short length imposed on traffic. The Wedgwood Committee admitted that they were impressed with the feeling of grievance which appeared to exist in regard to the preferential treatment of export and import traffic. They also took into consideration the complaint that the railways were too 'individualistic' in quoting rates. In both these matters, they recommended that traders should have free recourse to the Railway Rates Advisory Committee.

2. RAILWAY TRANSPORT DURING WAR AND AFTER

During World War II, the demand for railway services increased very largely. The increased demand was due to military requirements and the diversion of traffic from shipping to rail. Earnings of the Railways also increased. The gross traffic receipts of state-owned railways gradually rose from Rs. 99·62 crores in 1938-39 to Rs. 225·74 crores in 1945-46. The net receipts after providing for depreciation rose from Rs. 30·44 crores in 1938-39 to Rs. 76·59 crores in 1943-44. The surplus left over after payment of interest charges showed a phenomenal

increase from Rs. 1·37 crores in 1938-39 to Rs. 50·84 crores in 1943-44. These large surpluses not only enabled the repayment of loans from the Depreciation Fund but made possible the payment to the Government of a handsome amount including arrear contributions aggregating Rs. 159·80 crores from the beginning of the war to the end of 1945-46.

But the railways were able to meet the essential demand of the army and the war industries only by reducing their services to the civilian population. Partition affected the railway system badly. The total mileage of railways in India before Partition was 40,509 but it decreased to about 35,000 miles. Partition not only led to the division of railway assets but also to the diversion of traffic on certain lines. Moreover, the railways had to handle heavy refugee traffic. All these put a great strain on railway administration and the facilities available to trade and industry were greatly reduced during the years 1947 and 1948.

Kunzru Committee.

The increase in working expenses of the railways was also a matter of great concern for the administration. In June, 1946, the Standing Finance Committee for Railways found that there had been large increases in railway staff. They further found, that during the war there had been considerable increase in working expenses due to laxity in financial scrutiny. Thereafter the Government of India appointed a high-power Railway Enquiry Commitee (popularly known as the Kunzru Committee) to consider the economies that might be introduced to secure an improvement in net earnings as well as to ascertain the extent of staff surplus and methods of absorbing them.

The Committee made a broad financial and statistical survey of the Indian Government Railways since 1924 and came to the conclusion that there had been a substantial fall in the standard of efficiency and performance since 1938-39. Moreover, they found that the financial results, so far could not be considered satisfactory and thought that the immediate future of the railways could by no means be considered bright. They made a number of recommendations and the Government took action on some of them.

Effects of War and Partition.

The War and Partition had disorganised the railway system to such an extent that to restore normalcy was not an easy task. Orders for a large number of locomotives had been

placed in the U.S.A., Canada and Britain and some of these locomotives had actually arrived. This was very unsatisfactory. To make India self-sufficient with regard to the supply of locomotives, the Government established a locomotive manufacturing industry at Chittaranjan, in West Bengal. The Chittaranjan Workshops were designed to build 120 steam locomotives and 50 spare boilers per year. Only 91 locomotives were turned out from these workshops during 1951-53. This undertaking is now owned jointly by the Government and the public. The Tatas also started the manufacture of locomotives. The output of these two Works was expected to be sufficient to meet the entire demand of railways in India. It was expected to meet the country's demand for coaches from the Hindustan Aircrafts Ltd., and the workshops at Perambur. The Railways embarked upon a Rs. 100 crore rehabilitation programme to bring down the percentage of average rolling stocks to the minimum possible time.

Chittaranjan Works.

Changes in the class system.

In January, 1949, railway administration introduced a three-class system on passenger trains in place of the then existing four-class system. The changed system did not work well and resulted in loss in the aggregate railway earnings. The administration modified the system and introduced four classes, namely Class I, II (Special), II (Ordinary) and III. This also did not prove a success and the old system of four classes,—first, second, intermediate and third—was reverted to early in 1950. These changes cost a large sum of money to the public exchequer.

Railway Regrouping into six zones:

A proposal was made for the regrouping of Railways, but the Kunzru Committee did not favour regrouping immediately and urged the postponement of the proposal till the advent of normal times. Early in June 1950, however, a tentative plan of regrouping Indian Railways into six zonal systems was circulated for eliciting public opinion thereon. The then Railway Minister said the objects of this plan were: reduction in working expenses, operational convenience and administrative efficiency. The zonal system was given effect to between April 14, 1951 and April 14, 1952, in spite of strong opposition in regard to some of the zones. A further division of the Eastern zone was made in 1955.

After the attainment of freedom, it was found necessary to revise the railway rates and the revised railway rates came into

effect from the 1st October, 1949. The Fiscal Commission expressed the view that the railway authorities should further examine the question of introducing changes so as to assist in the local and regional processing of agricultural and mineral produce and in the decentralisation of industries.

Further revision in rates desirable.

One of the very unsatisfactory features of the working of Indian railways in recent years has been the frequent occurrences of accidents causing death and severe injuries to large number of passengers. There is a tendency among Government officials to regard sabotage as the only cause of these accidents. But some people think that this view is not always correct. It is sometimes asserted that the Government ascribes accidents to sabotage in order to escape the payment of compensation. It is very desirable, therefore, to constitute impartial and independent tribunals to investigate the causes of accidents whenever they occur. It is quite possible that some accidents are due to defects in the railway tracks, or the high speed at which the trains are run, or the unsatisfactory state of the engine, or the drunken condition of the driver. Unless the real causes are found out and proper remedies are applied, it cannot be expected that the occurrence of accidents will cease.

Railway accidents.

3. RAILWAY CONTRIBUTION TO THE CENTRAL REVENUES

Railway contribution.

The railway convention, as adopted in 1924, was later found to be unsatisfactory. On the recommendation of the Convention Committee of 1949, the Constituent Assembly adopted in December, 1949 a new Convention. Under this Convention, general finance has been guaranteed by the railways a fixed dividend of 4 per cent. on the shareholding or the capital loaned, for a period of five years from 1950 to 1955, interest charges being met by the general revenues out of this amount. It has been also laid down that a Committee of the Parliament of India should review the rate towards the end of this period and suggest, for the years following it, any adjustment considered necessary. The Convention also provides for the allocation to the Depreciation Fund a sum not less than Rs. 15 crores during the next quinquennium. The balance is to be divided between General Purposes Reserve Fund for maintaining financial equilibrium, and the Development Fund which would

New Convention.

meet the cost of passenger amenities, labour welfare, and necessary but unremunerative projects.

A net return, so small in itself, was likely to bring to the general revenues a yearly contribution of about Rs. 5 crores on the basis of the capital invested at present.

4. ROAD-RAIL COMPETITION AND CO-ORDINATION

Road-Rail competition. A problem of a serious nature arose in the post-war period in the shape of a strong competition between road and rail transport. Since World War I there had been a phenomenal increase in the volume of road transport in India. The total mileage of roads in India was over 250,000, and the total number of buses and lorries were quite large.

Central Road Fund. In 1928, the Jayakar Committee had recommended the creation of a Central Road Fund. In the following year, the Government of India increased the duties on motor spirit to finance this Fund. Questions of importance affecting the roads of India are discussed periodically at sessions of the Indian Road Congress convened by the Government of India.

Co-ordination of transport. Co-ordination between road and rail transport was found difficult before the Second World War. The Motor Vehicles Act was therefore passed in 1938. It was hoped that by this means competition between railways and motor transport would be considerably restricted.

In 1956, the total route mileage of the Indian Railways was 34,736.

5. POST-WAR ROAD TRANSPORT

During World War II. During World War II, many strategic roads were constructed in the north-eastern parts of India. The roads were divided in 1943 into four classes, viz.—(*i*) National highways, (*ii*) Provincial and State Highways, (*iii*) District roads, and (*iv*) Village roads, and it was decided that all these classes of roads, except the national highways should be developed by the provinces or States. Maintenance and development of the national highways should be a charge on central revenues. It was decided that a target of 400,000 miles of roads of all classes at a total cost of Rs. 448 crores would be reached within a period of 10 years immediately following the war. Financial stringency of the subsequent years, however, led to considerable scaling

Classification of Roads.

Target of road development.

down of the plans. In 1948, the Road Transport Boards were set up in Bombay, Madras and West Bengal.

Road Transport Boards.

In 1950, the Minister of State for Transport moved for consideration in Parliament the Road Transport Corporation Bill as reported by the Select Committee. The bill empowered the State Governments to nationalise road transport and sought to replace the previous Act of 1948.

Regulation of Rail-Road competition.

Regarding road-rail competition, the White Paper issued on road transport clearly laid down the policy of the Government. In the matter of passenger traffic, the Government proposed to achieve co-ordination by setting up a road transport undertaking in which railways would be given 20 per cent financial interest. In the matter of goods transport, the Government proposed to encourage road transport for short distances and to reserve long-distance traffic, except in perishable and fragile goods, for railways. In 1950, a Central Road Research Institute was established in Delhi to carry on fundamental and applied research on road materials and road construction.

Central Road Research Institute.

The Five-Year Plan provided for a large development of national highways. Considerable extensions of village roads were constructed under the community development project, to connect the more importatnt villages with marketing centres and district headquarters. By the end of the first Plan, the total road mileage rose to 3,16,668, including roads under Community Development Projects and National Extension Services.

6. SHIPPING

Shipping in ancient India.

Shipping is no less important for a nation than railways from the economic point of view. In ancient times, not only was an active trade carried on along the extensive sea-board of the country, but Indian vessels carried cargoes to Persia, Arabia and parts of Eastern Africa on the west, and to Malaya and the Indian Archipelago on the east. During the mediaeval period, the foreign shipping of India lost much of its previous enterprise, but an active coastal traffic was continued. In the eighteenth century, ships were built in Calcutta and Bombay for the East India Company's service. But, owing to various factors, including the protection given to British shipping and the building of steel ships in Britain, ships ceased to be built

Gradual decline.

in India. Thus, by the beginning of the nineteenth century, Indian shipping practically went out of existence, and it was not until the beginning of the present century that fresh efforts were made to revive the industry.

Domination of foreign concerns.

At the present moment the part played by Indians in mercantile shipping is very small. India sends out very few vessels to foreign countries, and her maritime activity is confined almost entirely to her coastal sea-board. Indian-owned shipping concerns have not developed quickly on account of the intense and unfair competition of the established foreign concerns. It has been complained that, as a very large proportion of the export and import trade of the country is in the hands of foreigners, the foreign domination in this particular sphere is the result of the preferential treatment given to foreign firms by their national steamship lines.

Rate wars and deferred rebates.

The port-to-port rates quoted by these foreign lines have often been higher than the rate from a foreign country to India. As a result, in some areas foreign goods have enjoyed advantage in competing with goods coming from other parts of India through coastal shipping lines. Moreover, these foreign concerns have killed or injured some Indian steamship lines by means of unscrupulous rate-wars or by such devices as the grant of deferred rebates.

Advantages of a national mercantile marine.

No elaborate discussion is needed to stress the necessity of developing a mercantile marine owned and operated by Indians. Besides being an important business in itself, it can remove the evil effects of foreign monopolies, provide a new career for enterprising young men, and serve as a potential auxiliary of national defence.

Before World War II, there was no Indian vessel carrying cargo to distant countries overseas. During the six years ended June from 1933-34 to 1938-39, the average cargo carried on the coast per year was about 69 lakh tons out of which, the share of Indian companies was only 18 lakh ton. During World War II, many Indian ships were requisitioned for war services as a result of which Indian shipping received a setback.

Post-war shipping.

After the attainment of freedom the Government of India began to take steps to encourage Indian shipping. The shipbuilding yard at Visakhapatnam which had been established

during the war and had been engaged in repairing ships began now to manufacture ships. This yard has now been entrusted to the Hindustan Shipyard Ltd., in which the Government hold the controlling interest. The first passenger ship *Jalausha* built in this yard was launched in 1948. Subsequently, twelve other vessels *viz., Jalaprabha, Kutubtari, Jalaprakash, Jalapankhi, Jalapadma, Jalapalaka, Bharatmitra, Jagrani, Jalapratap, Jalapushpa, Bharatratna* and *Jalaputra,* were also constructed. A few other ships were built afterwards. At the end of December, 1955, Indian ships carried 100 per cent of India's coastal trade, about 40 per cent of the trade with the adjacent countries and 5 per cent of the trade with distant countries. Indian shipping will acquire 24 ships with a total of about 1,63,000 gross registered tonnage during the Second Five-Year Plan.[1]

Ships built at Visakhapatnam.

It is a very unfortunate fact that Bengal, which was at one time an important place for building ships, has not found it possible to revive this industry. Such revival is of utmost importance for foreign and coastal trade. It is to be hoped that public opinion will compel the authorities to take early steps in this matter. The foreign commerce of the port of Calcutta is equal to that of Bombay and immensely larger than that of any of the other ports, and it would be but fit and proper for Calcutta to have a large ship-building yard. An ideal site for such a ship-building yard near Calcutta is Gewankhali, situated on the right side of the Bhagirathi. Besides the close proximity of the two existing steel factories, namely, Tata Iron and Steel and Indian Iron and Steel factories, a 20-mile railway joining Gewankhali with the South Eastern Railway at Panskura will, place it in direct line of communication with the Rourkela

Neglect in West Bengal.

Proposal to start a ship-building yard at Gewankhali (W. B.).

[1] While India occupies the thirteenth place in trade, she is at the bottom of the list of maritime nations in the owning of tonnage. The inadequacy of tonnage cannot be made good with Indian built ships at a rapid pace owing to excessive high cost of building compared to other advanced countries. Hence recourse to purchase of second-hand ships has been sought, but the problem of finance has assumed a great importance even in this sphere. An important step, however, has been taken by the Government to bring about better liaison between them and the shipping industry with the constitution of an advisory body called the Consultative Committee of Shipowners, in 1952. This infant industry has still to lean on the helping hand of the Government to some extent in order that a strong merchant marine adequate to meet the trade requirements of this country may be built as early as possible.

works, which will be India's major source of supply of thick steel plates suitable for ship-building purpose. Labour is easily available at the place.

The Rajya Sabha has recently accepted a non-official resolution asking the Government to examine the feasibility of a fully mechanised coal and ore port on west bank of the lower Bhagirathi. During the debate on that resolution it was announced by the Deputy Minister for Transport and Railways that the question of having a mechanised port at Gewankhali on the Bhagirathi was considered by the Government and that as the project would cost a very huge amount, the matter would be referred to the Survey Mission of the World Bank which was visiting India in 1957.[2]

Shipping Corporation.

As regards ownership and management the first Government-sponsored shipping corporation was registered in March, 1950. The Government subscribed 74 per cent. of the capital and 26 per cent. was subscribed by Managing Agents, Messrs. Scindia Steam Navigation Co. Ltd. The present issued capital of the Company is Rs. 20 million. The Scindia Steam Navigation Co. Ltd. and the India Steamship Co. Ltd. have been provisionally admitted to the India-U.K.-Continent shipping conference and are operating along western routes. The Eastern Shipping Corporation Ltd., sponsored by the Government, was set up in 1950 to carry the cargo in the trade between India Australia, the Far East and the Near East. At the same time the construction of ships at the Visakhapatnam shipyard is subsidised liberally and cheap loans are being granted by the Government for acquiring additional tonnage. Thus, Indian vessels have now begun to carry cargoes to distant countries.

There are at present nine big shipping companies in India, *viz.*, (1) Bharat Line Ltd., (2) Scindia Steam Navigation Co., Ltd., (3) Bombay Steam Navigation Co., Ltd., (4) Great Eastern Shipping Corporation Ltd., (7) Malabar Steamship Co., Ltd., (8) New Dholera Steamships Ltd., and (9) India Steamship Co., Ltd.

[2] A team of shipyard experts from Britain came to India in July, 1957 to carry out a survey in regard to the establishment of a second shipyard in India. Among the sites visited were Bhatkal (Mysore), Cochin (Kerala), Paradip (Orissa) and Gewankhali (West Bengal). The Government of India intends to build tankers and ships of more than ten thousand tons in the second yard.

The Second entirely Government-owned Shipping Corporation, known as the Western Shipping Corporation was registered in June, 1956 with a capital of Rs. 10 crores. The Corporation at first operated services to Red Sea and Persian Gulf ports and was extended later to Black Sea ports, for carrying traffic between India and the Soviet Union under the trade agreement signed in December, 1955 during the visit of the Soviet leaders. Under this agreement, Russians were to supply to India one million tons of steel in the next three years and buy goods from her equivalent to the cost of the steel supplied.

Total tonnage.

The total tonnage of Indian shipping increased from 1·27 lakh tons in 1946 to 4·8 lakh tons at the end of 1955.

Importance of mercantile marine. Rear-Admiral Barnard's view.

The mercantile marine is important not only for the commercial and industrial development of the country but also from the standpoint of its defence. As Rear Admiral Bernard[1] rightly pointed out several years ago, "maritime power does not come from war-ships alone. The back-bone of this power comes from merchant shipping fleet, from ship-building yards and large coastal fishing fleet of small crafts." Emphasising that India must have a sea-trade to live in a modern world, he further observed that the tonnages required for petroleum products, machinery and things like military equipment were vast and they could not possibly be brought in by air-freight alone in the foreseeable future.

Ports.

India has six major ports, *viz.*, Calcutta, Bombay, Madras, Cochin, Visakhapatanam and Kandla scattered along her 3,500 mile coast line. The ports of Calcutta, Bombay and Madras are administered by statutorily constituted port authorities, subject to the overall control of the Central Government. The ports of Cochin, Vishakhapatnam and Kandla are administered by the Central Government itself.

The Port Trust and Ports (Amendment) Act was passed in 1951 to bring about uniformity in port administration, and to ensure greater Central control and supervision in matters of policy. Its other object was to effect decentralisation of authority in the existing administration of the major ports at Calcutta, Bombay and Madras. Moreover, a National Harbour

[1] He also observed that long before the Christian era Indian ships dominated the seas from Indonesia and Malaya across the Red Sea and they traded and spread Indian culture wherever they went.

Board consisting of representatives of the Government of India, the maritime States and the major port authorities, was constituted in 1950 to advise the Government on the general policy relating to the development of ports, especially the minor ones.

Marine Engineering Colleges.

Marine Engineering Colleges have been established in Bombay and Calcutta for training of certified engineers. The training ship *Dufferin* which previously used to train both executive and engineer cadets will now cater for executive cadets only. A Nautical College has been established for the training of Executive (Deck) Officers and a system of apprentice training has been introduced.

7. INLAND WATER TRANSPORT

Importance.

In pre-railway days, inland navigation was fairly well-developed, and there were several thousand miles of navigable waterways. The use of steam vessels in inland navigation was first started on the Bhagirathi when a service was started from Kulpi to Calcutta in 1823. A regular service was started between Calcutta and Agra in 1842. With the construction of railways, the inland water-ways were neglected and allowed to decay. Many rivers, which were formerly navigable, gradually became unnavigable. Water transport is the cheapest form of transport for heavy goods and bulk cargoes. That if industrialisation is to succeed, India must provide herself with this most economical of waterways must not be forgotten. In many parts of the country, water transport is the only means of transport. During the Second World War, the Burma campaign could not be started until supplies were assured by inland water transport. It is wrong to suppose that waterways and railways cannot be developed simultaneously. In Holland, Germany and many other Western countries, they have been developed side by side.

There are over 5,500 miles of navigable waterways in India, out of which the important ones are the Ganga and the Brahmaputra and their tributaries, the Godavari and the Krishna, the backwaters and canals of Travancore-Cochin, the Buckingham Canal and the West Coast Canals in Madras and Andhra and the Mahanadi Canals in Orissa. The new multi-purpose river valley projects also include schemes for navi-

gation channels. The Damodar Valley Project, for instance, envisages a channel from Calcutta to the Raniganj coalfields which is under construction; the Kakarpar Project in Bombay is to provide navigable channels from the sea to Kakarpar Dam and 50 miles further inland; and the Hirakud Project will make the Mahanadi navigable for its last 300 miles down to the sea. A large number of big and small country boats, steam and motor vessels also ply on the Ganga and the Brahmaputra, and the backwaters and canals of Travancore-Cochin. Measures are necessary to maintain adequate depths and minimum standard of facilities on the existing channels in order to make water transport more efficient than hitherto.

The question of improving the internal waterways is already receiving the attention of the provincial governments and the Central Waterways, Irrigation and Navigation Commission. For ensuring co-ordination of the work of the State Governments a beginning was made with the establishment of the Ganga-Brahmaputra Water Transport Board in March 1952, followed by a proposal for making arrangement on similar lines in South India in the near future. Recently, a survey has been actually undertaken with a view to establishing link between the Ganga, and the Teesta and the Brahmaputra. The development of an inland waterway from Calcutta to Allahabad will be very advantageous for purpose of travel as well as beneficial for trade and industry.

8. AVIATION

The development of aviation as a means of transport is of recent origin. The first regular air line service in India was started by Tatas in 1932. In the subsequent year, another company started operations. Before 1939, international air lines had begun to touch Indian air ports on their way to the Far East. Civil air transport continued to develop till the outbreak of the war when the Government requisitioned the air lines' multi-engined air crafts.

Recent origin.

The importance of developing air transport was clearly shown during the war. For the defence of the country as well as for the quick transport of men and materials in peace and war time, air transport had to be developed. Air transport

might also be used to relieve the distress caused by natural calamities, such as, earthquake or flood. During the recent floods, aeroplanes rendered great service. Possibilities of commercial flying were realised by the industrialists and immediately after the war, there was considerable expansion of air transport. Civil aviation has made a rapid progress since the attainment of Independence.

Progress.

An Air Licensing Board was established to allocate routes and in 1949, twelve air transport companies were operating scheduled services. Several external services were also started. In 1948, a company, Air India International Ltd. was formed for operation of an air link with the U.K. This was a joint state-*cum*-private enterprise.

Air-mail scheme.

In order to help the air lines to secure more load, an All-Up Air Mail scheme was introduced by the Government. With effect from the 1st March, 1949, Government was giving financial assistance to Indian air transport companies, flying clubs and other air operators calculated at the rate of 9 as. per gallon of petrol used in flying within India and from India to Pakistan. Progress has also been made in the training of flying and technical personnel. Civil Aviation Training Centres have been opened at Allahabad and Saharanpur. Flying clubs, which also occupy an important place in the training scheme, are given financial aid. An air-craft manufacturing industry has been started at Bangalore and a few simple aeroplanes are being produced in the Hindustan Aircrafts Ltd., in small quantities. The construction of the first India-made glider has been completed at the Civil Aviation Training Centre at Allahabad.

Air training.

Aircraft manufacture.

The rapid development of air transport has not however been on sound lines. The operational costs of some of these companies were very heavy; the volume of business available in some lines was small. These caused considerable losses to some of the companies. Attempts should be made to reduce the operational costs. Moreover, there should be a limit to the number of aeroplanes plying in a particular line and surplus planes should be diverted to international routes.

Heavy operational costs.

Diversion necessary.

Nationalisation in 1953.

With the nationalisation of Civil Aviation by the Air Corporations Act of 1953, the affairs of the aviation industry have assumed an added significance. Two bodies, *viz.*, Indian

Airlines Corporation and Air India International—one for the internal routes and the other for the external ones—have been constituted. Grave doubts have, however, been expressed as to the success of this step, particularly, from the economic point of view. Already freight charges have been raised and certain operational difficulties have cropped up. The financial burden on the Government must not be allowed to continue for ever.

Indian Air Services established a new record in the number of passengers carried during the first half of 1956. According to a half-yearly review of aviation in the country, Indian air carriers flew 334,086 passengers in the first six months of the year. During the whole year of 1956, Indian aircraft flew about 280 lakh miles carrying about 6·5 lakh passengers and nearly 1,820 lakh pounds of cargo and mail.

9. COMMUNICATIONS

The communication services in India, which comprise postal, telegraph, telephone and wireless communications, are provided by the Posts and Telegraphs Department, which next to the Railways, is the largest department of the Central Government. The Department is responsible not only for the communication services for the general public but also for such specialised sections as the commercial community, the press, the railways, the canal administrations, and the defence services. It is primarily a public utility department but is run on a commercial basis so as not to be a burden on the general revenues.

Postal, telegraph, telephone and wireless.

The postal and telegraph facilities have been in existence in India for a little over a century. The growth has been slow and steady but, having regard to the size of the country, development has lagged behind the actual requirements.

Total number of post offices.

On March 31, 1956, the total number of post offices was 55,042.

On January 26, 1957 the installation of the 3,00,000th telephone was celebrated.

Telephone factory at Bangalore.

A factory has recently been established in Bangalore, for manufacture of automatic telephone equipment.

Overseas Communication Service.

The Overseas Communication Service which is responsible for the working of telegraph, telephone and radio-photo services between India and foreign countries has been maintaining a steady progress.

Wireless

A Wireless Planning and Coordination Organi-

Planning and Co-ordination Organisation, 1952.

sation was set up during 1952, for the planning and coordination of the operation and development of the wireless services of India according to International Regulation.

By the end of 1956, India had 26 Radio broadcasting stations covering all the important linguistic areas. The total number of medium and short wave transmitters was 33 and 18 respectively.

CHAPTER XXIII

INDUSTRIAL ORGANISATION AND DEVELOPMENT

1. GENERAL REMARKS

During the early stages of industrial activity, the organisation was of a simple type. The individual worker combined in himself all the functions needed for production. He was the owner or possessor of land and the other natural resources; he supplied the labour with the assistance of the members of his family; he furnished the small amount of capital needed for the undertaking; and he was himself the organiser and manager. But as society advanced and its needs grew both in volume and variety, it was found necessary to resort to a complex organisation with a diversification of functions. At the present moment only the very small industrial undertakings are managed by the owners themselves, but all the bigger concerns have a complex organisation. Thus the forms of organisation at the present moment are: (*i*) the individual, (*ii*) the partnership and (*iii*) the Joint-Stock Company, with either limited or unlimited liability. A fourth form is the Trust, which is a combination of several enterprises. The different forms of organisation are suited to the size and the peculiar conditions and circumstances of the industrial undertaking. Each of these forms has its merits and defects. The broad outlook of the promoter, the hard and willing work of the labourer, the ability and honesty of the organiser, the integrity and devotion of the manager and the adequacy of financial resources are essential for success in industry.

2. THE MANAGING AGENCY SYSTEM

The Managing Agency system.

The pioneering and management of large-scale industry in India present certain distinct features which differ from company promotion and management in other countries. Industrial enterprises in this country have been mostly promoted and controlled by a system which is peculiar to India. It is known as the Managing Agency system. The more important jute

mills, cotton mills, tea gardens, sugar factories, electric supply concerns and light railways were started and are still managed by managing agents. There are many industries which would never have been established in the country but for the initiative and the risk taken by the managing agents. Without the assistance of the Tatas, the iron and steel industry and the hydro-electric industry would not have been developed as they have been.

Origin and growth.

The origin and growth of Managing Agencies form an interesting subject of study. The system was first adopted in European concerns. Among the representatives of European firms trading in India there were some persons of outstanding ability and enterprise who began to utilise the experience gained in their own businesses for promoting other kinds of industrial and commercial activity. When these were successfully started, the organisers managed the new concerns on behalf of the share-holders and became known as the Managing Agents. The system was subsequently adopted for promoting and organising Indian concerns.

Organisation of firms.

Managing agency firms are organised as individual proprietorships, private partnerships, private limited companies, or public limited companies. The second and third forms appear to be the most common, and the more important houses are organised under either of these two forms. Whatever the form in which the agency firm is organised, the services rendered by them to the concerns under their management are similar.

Types of managing agency.

Broadly speaking, there are three main types of managing agency firms in India, (1) European managing agency firms in Calcutta, (2) Indian managing agency firms in Bombay, and (3) Indian managing agency firms in Ahmedabad. There is one important distinction among them in respect of their tenure. The managing agency is hereditary and permanent almost invariably in Ahmedabad, and in some instances in Bombay, but not in Calcutta.

Functions of managing agents.

The agency firms are formed by a group of individuals with strong financial resources and considerable business enterprise. Their services may be considered under three heads: (*i*) services in regard to pioneering and promoting of industries, (*ii*) services in regard to finance, (*iii*) services in regard to the

organisation and administration of industry. The managing agents perform services in India which Issue Houses were doing in other countries. They promote joint-stock companies, employ their own funds or the funds of their friends and relatives for financing their requirements, and manage their business. Thus they are the promoters, financiers, and managers of the businesses they have established. They also act as sale or purchase agents for the concerns under their control. The remuneration which they charge for the services they render takes the form of a commission. The basis on which this commission is calculated varies from one industry to another and in different parts of the country. Thus, in the case of the cotton mill industry in Bombay, the system of a commission on profits has been prevalent for a long time, but in Ahmedabad, a commission on the sales basis existed until recently. The agents are able to supplement their usual remuneration by earning substantial commissions in respect of various subsidiary services rendered by them. During the Great Depression of 1929-33, the managing agency system proved a godsend to many industries, *e.g.*, tea. Because of the agents, bank accommodation was easier to obtain. Some of the defects of joint-stock business, have been avoided by the close association of ownership and control under them, giving unity of aim and motive. By virtue of this system, Indian industry has been able to reap some of the advantages of administrative integration.

Defects of the system.

While recognising that the managing agency system has played a very important part in the industrial development of the country, it must be admitted that the system has some grave defects. The managing agents were, until 1936, outside the scope of the Indian Companies Act, and, in the absence of any statutory control, they were able to carry on their activities in a manner highly injurious to the interests of the shareholders. The hereditary and practically irremovable character of managing agencies, the system of remuneration on a sales basis, the practice of rendering subsidiary services, such as the purchase of machinery and stores on behalf of their client-concerns, the inter-investing of mill funds, the control exercised over the directors so as to turn them into mere puppets, are some of the main grounds on

which the system has been severely criticised. The agents have also been accused of numerous malpractices. Not infrequently, charges of dishonesty, inefficiency and uneconomical management have been brought against them. Thus the abuse of the system has led to the general belief that it has outlived its usefulness. It is, therefore, not surprising that there has arisen an insistent demand that the system should be abolished, or at least reformed and placed under statutory control.

Demand for statutory control—the passage of the Indian Companies Amendment Act, 1936.

In these circumstances, the Indian Companies Act was amended in 1936 so as to bring the managing agents for the first time under legal control. The aim of this amended Act was to remove some of the gravest defects of this system. The maximum tenure of the managing agents was fixed at 20 years; the charging of commission on the basis of sales was prohibited; the practice of inter-investment of mill funds was curbed, no company being allowed to purchase the shares and debentures of any other company under the same managing agency, unless approved by the unanimous decision of the Board of Directors of the purchasing company. The rendering of subsidiary services was not banned altogether, but the receipt of any additional remuneration for such services was made subject to the sanction of a special resolution of the company. The independence of the directorate was sought to be secured by limiting the number of directors nominated by the managing agents to a maximum of one-third of the total number.

Further reforms needed.

But with all these provisions on the statute book the system has not been reformed to the desirable extent. Representations have been made that these controlling measures have not produced the desired effect; while, on the other hand, taking advantage of the statutory recognition and status extended to this system, the managing agents have been conducting the affairs of the companies in their own interests and much against the interests of the shareholders. In a Ministry of Commerce Memorandum issued towards the end of 1949, the Government of India, having regard to these defects and yet recognising that the system still has its uses, came to the conclusion that the restrictive measures of the 1936 Act should be further tightened up. The Government

proposed that not only additional restrictions should be imposed on the operation of the managing agents but that the Central Government may declare, from time to time, that in respect of specified industries or companies the system should not be allowed.

Criticisms of the new proposals of reforms.

The industrialists viewed in these proposals a motive which would virtually reduce the managing agency system to a cipher in the industrial economy of the country, and which, if carried into effect, must inscrutably result in the rapid disintegration of some of the industries themselves. Their suggestion was that the emphasis must fall on the proper administration of the law, and not on changing it, for the malpractices which were in vogue were the result, not so much of the absence of rigour in the then existing law, as of the laxity in the enforcement of its provisions. To conclude, change or no change in the Act of 1936, the managing agencies must reorient some of their activities so as to justify the grip they possess over Indian economic life.

Company Act Amendment Bill.

Apart from the experience gained of the actual working of the Amendment Act of 1936, which disclosed the necessity for an early amendment of some of its provisions, many changes had taken place in the intervening years in the organisation and management of joint-stock companies, and over a wide sector that was dominated by new elements in trade and industry, the character of company management had also materially altered. At the end of 1950, the Government of India appointed a Committee under the Chairmanship of Shri C. H. Bhaba to go into the entire question of the revision of the Indian Companies Act, with particular reference to its bearing on the development of Indian trade and industry. This Committee submitted its report in March, 1952. A Bill was drafted later largely on the recommendations of the Company Law Committee.

3. INDIAN COMPANIES ACT, 1956.

The Indian Companies Act, 1956 which came into force on April, 1956, marked an important stage, in the development of Company Law in India. The objects underlying the reforms of Company Law may be appreciated from the following

observations of the Company Law Committee: "Company Law is primarily concerned with means and not ends. It attempts to provide a legal framework for the corporate form of business management in which organisation, capital and labour are brought together in a particular form of relationship which constitutes the essence of private enterprise."

The operation of private enterprise under modern conditions must, however, be subject to the acceptance of certain broad social objectives and on some recognized standards of behaviour. In the words of the Planning Commision, "Private enterprise has to visualize for itself a new role and accept, in the larger interests of the country, a new code of discipline."

With this background, the changes introduced into Company Law by the Amending and Consolidating Act of 1956 may be broadly classified under the following aspects of company management:

- (*a*) Company promotion, formation and capital structure of the companies;
- (*b*) Company meetings and procedure;
- (*c*) presentation of company accounts, their audit and powers and duties of auditors;
- (*d*) inspection and investigation of the affairs of companies;
- (*e*) formation of Board of Directors and the powers and duties of the directors; and
- (*f*) terms and conditions of the appointment of managing agents, their powers and duties.

Capital structure of a company.

Under this Act, the most important change is the new provision laying down that in future the share capital of companies should be only of two kinds, namely, equity capital and preference capital and that voting rights on all matters should ordinarily be conferred only on the holders of the former type of capital.

As regards inspection and investigation of the affairs of companies, the new provisions of the Act greatly enlarge the powers of the Central Government and of shareholders. Under the new provisions, it would be now open to the Central Government, not only to initiate investigation on its own motion in suitable cases but also to apply to a court of law for

redress in a case where a company acts in a manner prejudicial to its interest, or in a manner which is oppressive to any section of its members.

The provisions of the new Act which deal with the directors are designed to ensure, firstly, the constitution of independent Board of Directors, assisted by representatives of the management as well as the shareholders but without the dominance of the former over the latter; secondly, the selection as directors of active individuals; thirdly, the adequate exercise of control by directors over managing agents; and fourthly, the prevention of arbitrary exercise by the directors of the powers which they are entitled to exercise on behalf of the company. A new provision has been included in the Act imposing an age limit (namely, 65) on directors and still another restricting the number of directorships which a person can hold to 20. Another new provision gives option to a company to adopt the system of proportional representation for the purpose of the appointment of its directors. This is a matter which was very carefully considered by the Joint Committee, before which it was represented, that under the past system of voting a majority of 50 per cent or more of the shareholders was able to monopolize all the directorships with the result that even a respectable minority of the shareholders could not assert its legitimate rights. Another important provision lays down that a person who voluntarily applies to be adjudicated an insolvent must be, ipso facto, disqualified for appointment as a director and an existing director should be required to vacate his office forthwith if he voluntarily applies to be adjudicated an insolvent. Power has been given to the Central Government to appoint not more than two persons, being members of the company, as directors for a period not exceeding three years, if a fairly big section of the shareholders (holding not less than one-tenth of the total voting power) complain of oppression or mismanagement and the Central Government is satisfied that it is absolutely necessary to make such appointment.

The provisions of the new Act relating to the terms and conditions of appointment of managing agents, their remuneration, powers of managing agents vis-a-vis directors and the powers and duties of the managing agents in regard to borrowing, loan contracts as well as purchases, seek to prevent wide-

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spread abuses of the powers conferred on the managing agents on these subjects which took place all over the country, more particularly, since the commencement of World War II.

Special mention may be made of some of the new provisions of the Act empowering the Central Government to notify that,

(*i*) no company engaged in any industry or business, to be specified in notification, shall have managing agents ; and

(*ii*) no managing agents can be appointed without the specific approval of the Central Government.

It has been provided that all existing managing agents will cease to hold office on the 15th August, 1960, but if in the meantime a managing agent has been re-appointed for a fresh term with the approval of the Central Government, this restriction will not apply. Another important new provision is that no person, firm or body corporate should be managing agent of more than 10 companies after the 15th August, 1960.

Another new provision is to the effect that no managing agency agreement shall in future provide for the agency being heritable or devisable by will. Regarding right of the managing agent to make nominations on the directorate the new Act provides that the managing agent will be able, in future, to nominate not more than two directors where the total number of directors on the Board exceeds five and one where the total does not exceed five.

Overall maximum managerial remuneration that a company may pay to its managing agents, directors etc. has been fixed at 11 per cent of the net profits (exclusive of fees paid to directors for attending Board meetings).

4. RATIONALISATION

1. Rationalisation needed because most up-to-date methods should be adopted.
2. To stand competition.

The question of rationalisation has now assumed an importance in India which it never possessed before. World War II put a heavy pressure on the machinery used in industrial concerns, and in the years immediately following the war, worn-out and out-of-date machinery could not be replaced. The productivity of these concerns is much less than it ought to be. An overhauling of such machinery is, therefore, an urgent

one. The introduction of most up-to-date methods of work is urgent. The Finance Minister, a short while ago, made a few observations regarding the policy of rationalisation in Indian industry. He pointed out that, with the emergence of a buyers' market, competition in international trade had grown very keen and difficult and the problem of replacing obsolete machinery by improved equipment had become very important. These observations of Sri Deshmukh evoked considerable discussion in Parliament and the Press. Some parties have strongly supported the Finance Minister's point of view, while others felt aggrieved.

Views of industrialists and labour

The industrialists have welcomed this view as a sound one, the implementation of which would remove some of the impediments to the successful carrying on of existing industrial ventures and help industrial development in future. On the other hand, it has been urged on behalf of labour that rationalisation would lead to an intensification of the problem of unemployment which is already a serious one. It cannot be denied that there is some validity in the arguments of each of the parties.

should be applied with caution.

If the introduction of new methods of work and modern machinery results in the retrenchment of personnel, steps will have to be taken to find work for the retrenched persons, either in the other departments of the same industry or in some other industries. But it would be suicidal on the part of labour to resist every measure of rationalisation. Unless Indian goods are produced at cheaper costs, they will not be able to meet the competition of goods produced in other countries. Besides, the production of goods at cheaper costs would benefit the people of India, particularly the poorer classes, as the diminution in cost will reduce the prices of articles. The adoption of modern machinery is particularly necessary in the textile industry, as with the help of such machinery the cost of production would be reduced and the price of cloth—which is the most essential necessity to the poor man next to food—will diminish. This holds good of many other industries also which produce necessaries or conventional necessaries of life. The introduction of rationalisation in industries, producing articles of export, such as jute, is equally urgent in order that India's position in the world market would not deteriorate. There-

fore rationalisation, instead of being condemned, should be welcomed. But adequate steps should be taken by the authorities of industrial concerns and the Government, so that any scheme of rationalisation may not throw out of employment a large number of labourers.

Therefore, both the Government and the industrialists should proceed in the matter of rationalisation in a cautious manner, so as to obviate its undesirable consequences.

5. INDUSTRIAL DEVELOPMENT

Beginning of industry on modern lines.

Impetus given by the Swadeshi Movement.

Further impetus given by World War I, Industrial Commission and Fiscal Commission.

Progress in the thirties, and during World War II.

In India industrial development on modern lines began about the middle of the 19th Century. During the remainder of the century the progress was extremely slow, but in the first decade of the twentieth century an impetus was given to the growth of industry by the Swadeshi Movement. A further impetus was given by World War I, the acceptance by the Government of the recommendations of the Indian Industrial Commission and the adoption of the policy of Discriminating Protection suggested by the Fiscal Commission. This led to a considerable advance in the thirties of the century. World War II created a situation in which there was much scope for the development of the then existing industries and for the starting of new industries.

Difficulties after War and Partition.

New Industrial Policy and the Planning Commission.

The end of World War II and partition placed many obstacles in the way of India's industrial progress. It was to meet this situation that an Industrial Policy was announced in 1948, which envisaged a mixed economy with an overall responsibility of the Government for a planned development of industries and their regulation in the national interest. This announcement reiterated the right of the State to acquire an industrial undertaking in the public interest, but it reserved an appropriate sphere for private enterprises. A Planning Commission was established in 1950 to study the entire economic situation of the country and to give effect to the policy in the course of five years. Thereafter, the trend of industrial production presented an encouraging picture. With every passing year, the pace of increase showed a greater rise largely due to the coming into production of many new projects as well as that of many expansion schemes. The increase in pro-

duction in 1956 was computed at nearly 19 per cent over that of the preceding year. This impressive increase was largely due to the sharp rise in the production of many general and electrical engineering industries, which had benefited considerably from the larger availability of steel in the country. The index (Base: 1951 = 100) for these industries which stood at 108·9 in 1953, moved up to 151·9 in 1954, to 183·3 in 1955 and to 226·8 in August, 1956. The upward trend was maintained in the first four months of 1957.

Impressive progress.

According to the 1953 Census of Manufacturing Industries, India had 7,104 registered factories. Of these, 6,399 employed in all Rs. 728·7 crore worth of capital. The total number of persons employed in these factories was 16,27,857 including 14,70,749 workers. The total value of the products of these manufacturing industries was Rs. 1,123 crore. Salaries and wages amounted to Rs. 205·2 crore. The total profits earned by 324 companies during 1953, according to another estimate, amounted to Rs. 33·67 crore as against Rs. 24·60 crore during the previous year. The index number of industrial profits during 1953 for all industries, with 1939 as the base year, was 261·2 compared to 190·6, 310·5 and 246·6 during 1952, 1951 and 1950.[1]

Industries which showed considerable progress.

The greatest development took place in the Iron and Steel industry. In 1956, the output of finished steel was 1,10,000 tons. The Engineering industries registered in 1950 an increase in output of 50-to-100 per cent more than that of the preceding year. In 1954, 134 chemical items were produced of which the products manufactured for the first time in India were: sheet glass,[2] penicillin, DDT, Chloromycetin, glacial acetic acid and acetic anhydride, bismuth salts, ammonium chloride and hydrogen peroxide. Cotton production touched a new record in 1956, the output being 13,93,00,000 lb. yarn and 44,23,00,000 yds. cloth. During 1956 the production of jute goods amounted to over 86 thousand tons. The figure for 1956 for cement production was about 411,000 tons. The production of paper and paper boards in 1956 was 16,117 tons. The first newsprint mill in India went

[1] *India, 1957.*

[2] The Indo-Asahi Glass Company, described as the biggest Indo-Japanese enterprise since World War II, went into production at Bhurkunda (Bihar) on July 21, 1957 with a monthly capacity of 45,00,000 sq. feet of sheet glass.

into production in January, 1955 with an installed capacity of 30,000 tons a year. The plant of the Standard Vacuum Oil Company with an annual capacity of 12 lakh tons in terms of input of crude oil, went into production in August, 1954. The Burmah Shell Refinery, Trombay (annual capacity 20 lakh tons) commenced its activities in 1955. The total production of coal in 1956 was 32,85,000 tons.

Machine tool and non-ferrous metal industries.

The machine tool industry, which is a basic industry, made substantial progress and arrangements were made for its further expansion. Another important feature was the development of non-ferrous metal industries, including copper, lead, tin, zinc, aluminium and magnesium, which were of great importance to the country.

Among the other industries which recorded a substantial increase in output, automobiles, diesel engines and electric motors deserve mention.

6. INCREASED PRODUCTIVITY MOVEMENT

Importance of increased productivity.

It should be remembered in this connection that what is needed for the wellbeing of the people is not mere increase in production, but increase of productivity. Productivity is the ratio of the goods or services produced, *i.e.*, the output of wealth produced, to the input of resources necessary for the production. The resources include labour power, electric power, materials, etc. Increase of productivity means simply to find a better way to utilise the various tools of production, so that production of more goods at the lowest cost is possible. The aim of the productivity movement should be to ensure that the benefits of increased productivity do not go only to the employers and that they are equitably shared with the workers and consumers. A delegation of officials and non-officials which visited Japan in October, 1956 on the initiative of the then Ministry of Heavy Industries, suggested for the creation of a National Productivity Council to launch an effective national movement for increased productivity in India.

CHAPTER XXIV

THE STATE AND INDUSTRY

I. HISTORICAL REVIEW

THE East India Company was primarily a trading corporation whose chief business was to exchange the manufactured goods of England for the agricultural products of India. But when the Company attempted to improve the existing industries of the country, by organising and financing, their policy met with opposition from vested interests in England, which were at one time very powerful, and insisted that the Company should concentrate on the export from India of the raw materials necessary for manufacturers in England.

E. I. Company a trading corporation.

Besides, the acceptance of the policy of *laissez-faire* in England kept the Government of India more or less aloof from the industrial affairs of the country. It was held that what was good for England was beneficial to India as well, even though the circumstances of the two countries were quite different. The efforts of the state were confined to improving communications and facilitating the flow of trade. The result was that the old industries of the country gradually decayed owing to their inability to withstand an unequal competition, and the artisans were compelled to leave their old occupations and take to the cultivation of land. This increased the pressure of the population upon land. Another consequence was that India was gradually converted into an exporter of foodstuffs and raw materials and an importer of foreign manufactures.

Laissez-faire.

The Famine Commission of 1880 directed the attention of the Government to a policy of diversification of industries as a remedy against the recurrence of famines. About the same time, thoughtful Indians felt that the existing conditions were unsatisfactory, and insisted that the State should take an active part in promoting the indusrial development of the country. The first measure adopted by the Government took a two-fold form, namely, a very imperfect provision of technical education,

Need for a change in policy.

and the collection and dissemination of commercial and industrial information.

The creation of the Department of Commerce and Industry in 1905 foreshadowed the pursuit by the Government of India of a more definite policy of industrial development. But in 1910 its activities were curtailed by a decision of the then Secretary of State for India, Lord Morley.

Lord Morley's decision.

Lord Crewe's view.

Lord Crewe, while re-affirming the decision of his predecessor, said: "There is no objection to the purchase and maintenance of experimental plant for the purpose of demonstrating the advantages of improved machinery or new process, and for ascertaining data of production."

Public agitation in India.

Meanwhile, Indian public opinion had begun to demand a forward policy in regard to industrial development. The Partition Agitation in Bengal with its programme of *Swadeshi* and the boycott of British goods impressed the people of the country. Private efforts were made to start industries and to equip the younger generation with mechanical and scientific training. These efforts in many cases failed, but they made manifest the real industrial position of the country. The Industrial Conferences organised by a body of prominent Congressmen and industrialists riveted the attention of the country upon the possibilities of industrial development in India. The example of Japan showed what an Asiatic country could do in the matter of industries when the Government supported its activities. But the policy of the Government of India was one of hesitancy and non-interference. The result was that World War I showed clearly and vividly the industrial shortcomings of India, which proved a source of weakness both to India and the Empire. In March, 1916, Sir Ibrahim Rahimtoola moved an important resolution in the Imperial Legislative Council urging the appointment of a Committee to consider what measures should be adopted for the growth and development of industries in India. This led to the appointment of the Industrial Commission under the chairmanship of Sir Thomas Holland.

Rahimtoola's Resolution.

Industrial Commission.

The Industrial Commission expressed their regret at the failure of the Government of India to adopt a vigorous and well-thought-out policy for India's industrial expansion in these words: "Much valuable time has been lost, during which substantial advances might have been registered, and the outbreak

of war, which should have proved an opportunity to reap the fruits of progress, has served mainly to reveal and accentuate startling deficiencies." The Industrial Commission, discussing the industrial deficiencies of India, laid special emphasis on the fact that, while India produced nearly all the raw materials necessary for the requirements of a modern community, she was unable to manufacture many of the articles essential alike in times of peace and war. The Commission pointed out that the formation of a definite industrial policy rested upon the acceptance of two important principles: (1) that in future Government must play an active part in the industrial development of the country, with the aim of making India more self-contained in respect of men and material; and (2) that it would not be possible for Government to undertake that part, unless it was provided with adequate administrative equipment and forearmed with scientific and reliable technical advice. The Commission suggested that state aid to industries might be rendered in various ways, *e.g.*, research, the survey of natural resources, technical and scientific advice, educational facilities, commercial and industrial intelligence, the establishment of pioneering and demonstration factories, direct financial assistance, and local purchase of stores.

Recommendations.

Under the Montagu Chelmsford Reforms the development of industries became a provincial transferred subject, and this led to a division of the functions of the Central and Provincial Governments in regard to industrial activities. The financial difficulties of the post-war period rendered the schemes of many Provincial Governments infructuous, and consequently progress in this direction was extremely slow. Under the provisions of the State Aid to Industries Act, 1923, power was taken to grant loans to industries under certain conditions. At Kanpur, in the United Provinces, a Technological Institute was started with the object of imparting instruction in dyeing and in the chemistry of oils and fats. A Leather Institute was also started for the training of foremen. In Bihar, for the training of young men in the iron and steel industry, a Metallurgical Institute was established. A School of Mines was established at Dhanbad, while a railway workshop was started at Jamalpur. In Bengal, the Government Research Institute began to make experiments in chrome tanning. Some amount of spade-work was thus done,

M.-C. Reforms regime.

but no large scheme was taken in hand. The Government of India Act, 1935 gave wide powers to the provincial ministers in respect of industries and some steps were taken in a few of the provinces to help industrial growth.

Purchase of stores.

Before World War I all the necessary stores were purchased through the India Office in England. The Indian railways purchased large quantities of materials from England. It was the Munitions Board, established during World War I, which for the first time took substantial steps towards encouraging local purchase. The experience gained from the successful operations of the Munitions Board brought into prominence the desirability of establishing a Stores Department in India, with the object of diverting to Indian mills and workshops the large indents which were usually sent to London. The Indian Stores Department which was set up in 1922 immediately took up the purchase of textile goods for the army and other departments in India.

Indian Stores Department.

Railway Stores.

Another important line of state-help to industries came from the orders placed by the Railway Board for materials and for construction. The Rupee-tender system was adopted for all such purchases and orders, and in 1935-36, railway stores in considerable quantities were purchased in India. Some orders for bridge construction or repairs were also placed with Indian firms. The Indian Iron and Steel Company obtained a long-term contract for manufacturing cast-iron sleepers. Collieries supplied a large amount of their raisings to the Railway Board. From 1928-29 to 1934-35, all orders for railway wagons and underframes were placed in India for manufacture in the country. There was, however, one fact worthy of note in this connection. Many European firms registered themselves in India with Rupee capital and claimed all the privileges available to Indian concerns. In such cases, Indian labourers, mostly of the unskilled sort, and Indian producers of raw materials were undoubtedly benefited, but it would have been better if Government stores could be supplied by firms started by Indian capital and enterprise.

Non-Indian concerns in India.

Discriminating Protection.

While these measures were of some assistance to Indian industries, the most important step was taken in 1922, when the Government of India adopted the policy of Discriminating Protection on the recommendation of the Fiscal Commission.

The development of the iron and steel industry, the sugar industry, or the textile industry would not have been possible if the Government had not brought about a re-orientation of their fiscal policy. The Government thus began to recognise its responsibilities in the matter of industrial development. What was wanted was vigorous action.

Vigorous policy needed.

During World War II, industrial activity was switched on to the requirements of the War. Towards the end of the War, however, the Government of India prepared a full-fledged policy of industrial development. This was announced in April, 1945. The different objectives of this new policy may be summed up as follows: (*i*) Rapid industrialisation of the country; (*ii*) balanced regional distribution of industries; (*iii*) balanced development of the economy as a whole; and (*iv*) equitable distribution of the national income. This plan was the swan-song of the British Government in India.

Announcement of April, 1945.

2. ENUNCIATION OF FREE INDIA'S POLICY

After the attainment of independence by India the objectives of economic development in the country were laid down in the "Directive principles of State policy" of the New Constitution. It was enjoined in Article 39 that the State "shall direct its policy towards securing: (*a*) that the citizens, men and women equally, have the right to an adequate means of livelihood; (*b*) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good; (*c*) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment; (*d*) that the health and strength of workers, men and women, and the tender age of children are not abused and that citizens are not forced by economic necessity to enter avocations unsuited to their age or strength; and (*e*) that children and youth are protected against exploitation and against moral and material abandonment."

Under the New-Constitution.

Article 39.

The further implications of this policy are brought out in Articles 41, 42 and 43. Article 41 urges that the State shall "within the limits of its economic capacity and development, make effective provision for securing the right to work, to education and to public assistance in cases of unemployment,

old age, sickness and disablement, and in other cases of undeserved want". Article 42 requires that the State shall "make provision for securing just and humane conditions of work and for maternity relief". Article 43 contains a further elaboration of the same ideal. Under it the State shall "endeavour to secure, by suitable legislation or economic organisation or in any other way, to all workers, agricultural, industrial or otherwise, work, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities".

On the economic side, among the primary duties of the State are "the raising of the level of nutrition and the standard of living of its people and the improvement of public health". Article 43 directs that "the State shall endeavour to promote cottage industries on an individual or co-operative basis in rural areas" and Article 48 enjoins that the State "shall endeavour to organise agriculture and animal husbandry on modern and scientific lines".

Industries Conference.

An Industries Conference was held in December, 1947, which came to certain general conclusions regarding (1) industrial policy, (2) progress needed in industrial production and (3) industrial relations. The broad policies embodied in the "Directive principles" of the Constitution were emphasised in the Resolution on Industrial Policy issued by the Government of India on April 6, 1948, which may be summarised thus:

Statement on Industrial policy, 1948.

Firstly, the Resolution took as its starting-point the nation's resolve "to establish a social order where justice and equality of opportunity shall be assured to all people".

Secondly, it laid down that all efforts should be directed to securing an appreciable rise in the standard of living within the shortest possible time and a dynamic national policy must be directed to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution."

Mixed economy.

Thirdly, the Resolution contemplated a mixed economy. There was a sphere reserved for private enterprise and another for public ownership. The Government of India felt that "for some time to come, the State could contribute more quickly to the increase of national wealth by expanding its present activities wherever it is already operating and by concentrating on

new units of production in other fields, rather than on acquiring and running existing units. Meanwhile, private enterprise, properly directed and regulated, has a valuable role to play." On these considerations the Government decided that the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport should be the exclusive monopoly of the Central Government. Further, in any emergency, the Government would always have the power to take over any industry vital for national defence. In the case of the following industries, the state, including central, provincial and State Governments and other public authorities like municipal corporations, would be exclusively responsible for the control and regulation: (1) Coal; (2) iron and steel; (3) aircraft manufacture; (4) ship-building; (5) manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets; (6) mineral oils. It was added: the management of State enterprise would, as a rule, be through the medium of public corporations under the statutory control of the Central Government, who will assume such powers as may be necessary to ensure this.

Reservations.

The rest of the industrial field would normally be open to private enterprise, individual as well as co-operative. The State would also progressively participate in this field, nor would it hesitate to intervene whenever the progress of an industry under private enterprise was unsatisfactory. There was, besides, a list of 18 industries which would be subject to Central regulation and control, inasmuch as their locations must be governed by economic factors of all-India import or "they require considerable investment and a high degree of technical skill".

Fourthly, the Resolution emphasised the very important role cottage and small-scale industries would have in the national economy "offering as they do scope for individual, village or co-operative enterprise and means for the rehabilitation of displaced persons" and the desirability of decentralising larger industries wherever conditions would permit.

Fifthly, the Resolution enunciated a policy of social justice, fair labour conditions as an essential basis for harmonious relations between management and labour. Sixthly, reference was made to the tariff policy of the Government which should be designed to prevent unfair foreign competition. Seventhly,

the policy in regard to foreign capital was explained in the following terms: "The Government of India agree with the view of the Industries Conference that, while it should be recognised that participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialisation of the country, it is necessary that the conditions under which they may participate in Indian industry should be carefully regulated in the national interest. . . . The major interest in ownership, and effective control, should always be in Indian hands; but power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon."

The Government attitude towards foreign capital was further elucidated by the Prime Minister in his Statement in Parliament on April 6, 1949.

3. NEW INDUSTRIAL POLICY

New Industrial Policy, 1956.

After the expiry of eight years since the declaration on Industrial Policy in 1948, a new Industrial Policy was announced in Parliament on April 30, 1956, in view of the important changes which had taken place during this period, the completion of the first Five Year Plan, the commencement of the Second Plan and the acceptance of the Socialist pattern of society as the aim and object of the Government and the people.

This Policy may be summarised as follows:

The State will progressively assume a predominant and direct responsibility for setting up new industrial undertaking and for developing transport facilities. At the same time, as an agency for planned national development, in the context of the country's expanding economy the private sector will have the opportunity to develop and expand. The principle of co-operation should be applied wherever possible and a steadily increasing proportion of the activities of the private sector developed along co-operative lines. Generally speaking, for the purposes of future development, industries have been classified under three categories. In the first category will be industries, the future development of which will be the exclusive responsibility of the State. All new

units in these industries, save where their establishment in the private sector has already been approved, will be set up only by the State. This does not preclude the expansion of the existing privately owned units, or the possibility of the State securing the co-operation of private enterprise in the establishment of new units when the national interests so require. Railways and air transport, arms and ammunition and atomic energy will, however, be developed as Central Government monopolies.

Industries in the second category will be progressively state owned and here the State will generally take the initiative in establishing new undertakings, but private enterprise will also be expected to supplement the effort of the State in this field.

All the remaining industries will fall in the third category, and it is expected that their development will be undertaken ordinarily through the initiative and enterprise of the private sector, though it will be open to the State to start any industry even in this category. It will be the policy of the State to facilitate and encourage the development of these industries in the private sector, in accordance with the programme formulated in successive Five Year Plans, by ensuring the development of transport, power and other services, and by appropriate fiscal and other measures.

Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the State and will be subject to control and regulation in terms of the Industries (Development and Regulation) Act and other relevant legislation. The Government, however, recognise that it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the National Plan.

The Resolution emphasises that the division of industries into separate categories does not imply that the three categories are being placed in water-tight compartments. Inevitably, there will not only be an area of overlapping but also a great deal of dovetailing between industries in the private and the public sectors.

The Government's industrial policy stresses the role of cottage and village and small scale industries in the development of the national economy. They provide immediate large scale

employment, a more equitable distribution of the national income and facilities for an effective mobilisation of resources of capital and skill which might otherwise remain unutilised.

The State has been following a policy of supporting cottage and village and smallscale industries by restricting the volume of production in the large sector, by differential taxation, or by direct subsidies. While these will continue, the State will concentrate on measures designed to improve the competitive strength of the small scale producer. With this end in view a start has been made with the establishment of industrial estates and rural community workshops to make good the deficiency in technical and financial assistance for the small-scale producers. Many of the activities relating to small scale production will be helped by industrial co-operatives. Such co-operatives should be encouraged in every way and the State should give constant attention to the development of cottage and village small scale industry.

The Government have felt the necessity for a balanced and co-ordinated development of the industrial and the agricultural economy in each region by rectifying the existing disparities which stand in the way of attaining higher standards of living for the entire country.

The industrial policy can be carried into action only if industrial peace is maintained. The Government have stressed the view that in a socialist democracy labour is a partner in the common task of development and should participate in it with enthusiasm. There should be joint consultations by both management and labour; workers and technicians should be associated progressively in management. Enterprises in the public sector have to set an example in this respect.

4. GOVERNMENT UNDERTAKINGS

The Damodar Valley project, the actual working of which has been entrusted by the Government to a Corporation, is a Government undertaking. The workings of the other river valley projects, which are mostly under the direct control of the government, have been previously discussed. Ordnance and other defence requirements are a Government monopoly. The Railways, the Post & Telegraph, Telephone, the Wireless and

Radio are all managed as national concerns. Civil aviation has recently been nationalised, and its management has been placed under two Corporations. Three Oil Refineries have been started under Government auspices.

Among the other State undertakings the following deserve mention:

Steel production.

For steel production as a State-owned enterprise, an agreement was concluded in August, 1953 with a German Combine for a half-million ton steel plant (at Rourkela). It was soon found that steel production must be planned on a much bigger scale than had been envisaged hitherto. The doubling of the Rourkela Project, the setting up of another major steel factory at Bhilai, with Russian collaboration, and preliminary action for a third major steel plant with British collaboration were undertaken.

Sindri Fertilizers.

The annual production of Sindri fertilisers increased from the initial 35,000 tons in 1951-52 to 210,000 tons in 1952-53 and thereafter steadily to 333,000 tons in 1956-57. The capital investment in Sindri is about Rs. 23 crores. The Coke Oven Plant at Sindri (costing about Rs. 2·8 crores) was commenced in September, 1952 and went into production in September, 1954 making Sindri self-sufficient in respect of its coke requirements. The selling price of the fertilizer was Rs. 270 a ton in 1956 compared to Rs. 350 a ton in 1953. The imported landed price of the same fertilizer at that time was Rs. 330 a ton. Arrangements were made for a further expansion of Sindri by about 60 per cent of its existing capacity.

Nangal fertilizer factory.

Another fertilizer project (of the size of Sindri) was taken in hand in 1956 at Nangal (Punjab). This Project would also include the production of heavy water required for the atomic energy programme. The factory is due to come into operation in 1960. Preliminary steps are being taken to set up a fertilizer factory at Bombay, using the refinery gases from the Burma-Shell and Stanvac refineries there.

Hindusthan Cables.

The Hindusthan Cables factory at Rupnarainpur went into production in September, 1954 and from the initial production of 112 miles in 1954-55 the production increased to over 560 miles a year in 1956. The factory is being further expanded to double its capacity, and also to make co-axial cables.

Hindusthan Shipyard. The Vishakhapatnam shipyard was taken over by Government from the Scindias in March, 1952, when it had only two building berths with a capacity far below the economic size. During the last five years the construction of three new building berths were completed and cranage facilities were provided. During 1952-56 the shipyard completed and delivered nine vessels (total tonnage 69,000 tons DWT) and some other ships were under various stages of construction and planning. A dry dock project to form part of the shipyard is also in hand. Preparatory action is being taken to establish a second shipyard and the training of technical personnel for this second shipyard is also in hand.

Hindusthan Antibiotics. Though the production capacity of the Hindusthan Antibiotics factory was put at about 4 to 9 million mega units of penicillin a year, the factory which started production in August, 1955 already achieved a rate of 14 million mega units a year in 1956 as a result of adoption of new processes.

National Instruments Factory. The National Instruments Factory in Calcutta had been producing goods worth about Rs. 20 lakhs a year. A much larger factory has just been constructed outside the city, where a bigger production programme will be taken up.

Heavy Electricals. For the Heavy Electrical Project located at Bhopal the technical consultants were appointed early in 1956 and their detailed project was accepted. The factory is due to go into production by 1961-62.

Hindusthan Machine Tools. In October, 1954, the Hindusthan Machine Tools factory at Bangalore commenced production of a high speed lathe (H—22). Production in 1956 was at about 25 lathes a month.

Lignite Project. An integrated lignite project estimated to cost about Rs. 68 crores was established in 1957 at Neyvelli in Madras. The project will include the mining of about 3·5 million tons of lignite a year, a power station of over 200,000 Kw, a fertilizer factory of the size of Sindri and a briquetting plant.

Hindusthan Insecticides. The Hindusthan Insecticides factory at Delhi commenced production in 1955 and produced 500 tons of D.D.T. in 1956. The factory is being doubled and another factory is being set up at Alwaye (Kerala).

Coal. Coal production increased from 36 million tons in 1952 to 39 million in 1956. Production had naturally to keep in step with the availability of transport (chiefly Railways) for moving

coal. New coal fields are being opened up by the Government in suitable coal bearing areas. A high-power body, known as the 'Coal Council of India', was set up with the purpose to have reviews and studies conducted under its overall supervision and guidance, for planning of the development, utilisation and conservation of the coal resources of the country.

Salt.

The production of Salt in 1956 was 88 million maunds. The country is now self-sufficient in salt and exports are being encouraged. The export during 1956 was 83·66 lakh maunds.

Oil Refineries.

The Burmah Shell Refinery came into production in July, 1955 and processed crude oil in 1956 at the rate of about two million tons a year; Stanvac, which came into production in October, 1954, processed about 1·4 million tons a year in 1956. The Caltex Refinery at Visakhapatnam was also completed in 1956, and it would come into full production by the end of 1957. Both Burmah Shell and Stanvac would be operating at a higher capacity than originally agreed to. It was possible to obtain from Burmah-Shell and Stanvac a surrender of the two-anna differential on motor spirit to which they were entitled under the Refineries Agreement.

6. ASSISTANCE TO SMALL-SCALE INDUSTRIES

India, largely a country of small-scale production.

Although there has been considerable development of large-scale industries, India remains mainly a country of small-scale production. It is estimated that there are about 2 crore persons engaged in small and cottage industries.

Responsibility of the State Governments. Central organisations.

The work of organising the small industries is primarily the responsibility of the State Governments. To supplement their effort, the Central Government have set up six organisations, namely, (*i*) the All-India Khadi and Village Industries Board; (*ii*) the All-India Handicrafts Board; (*iii*) the All-India Handloom Board; (*iv*) the Small-Scale Industries Board; (*v*) the Coir Board; and (*vi*) the Silk Board.

Financial assistance by the Government and banking institutions.

Financial assistance to small industries is given both by the Government and banking institutions. For 1956-57, Rs. 329 lakhs and Rs. 52 lakhs were sanctioned as grants and loans respectively for the development of the small-scale industries.

Industrial Estates.

Arrangements were made for the establishment of 24 Industrial Estates. The entire cost of starting these estates was advanced as loans by the Centre to the State Governments. The programme of technical assistance to small industries was undertaken directly by the Central Government. Four regional institutions at Bombay, Calcutta, Delhi and Madras and a branch unit at Trivandrum had started functioning. Experts were brought in from abroad to help these industries in technical matters. Another significant development was the establishment of the National Small Industries Corporation in February, 1955. A full time Managing Director was appointed and separate divisions were formed for the different sectors of the work—Government contracts; marketing; hire-purchase of machinery; and Industrial Estates. Its Contract Division established liaison with Government purchase departments and evolved a working arrangement for giving contracts to small units. The Corporation introduced a scheme for hire purchase of machinery and equipment needed by small units. The Central Government decided in 1956 to start four subsidiary Corporations at Delhi, Mysore, Bombay and Calcutta to deal with applications for machinery on hire-purchase expeditiously and to provide marketing service to small industries in each region. For the development of small industries, the Community Projects Administration appointed Block level officers in a number of community projects and national extension blocks. The Corporation also undertook measures to rectify some obvious lacunæ in the marketing system such as (*i*) lack of standardisation, (*ii*) lack of brand-name which should have the confidence of the market and (*iii*) lack of a wide enough market. General trade-marks were introduced for different products.

National Small Industries Corporation.

Community Projects Administration.

Ancillary to large scale units.

The attention was given to the development of small scale units as ancillary to large scale units through the Government Purchase Division. Attempts were made for developing a number of small scale units, where possible, around a large unit as perpetual feeders of components and parts to the large units. A big Cycle factory in Calcutta had prepared detailed schemes for the establishment of eight small scale ancillary units for the manufacture of different small components.

A number of Industrial Extension Centres[1] was started with a view to assisting individual manufacturers in meeting the more common technical problems and to refer unusual or difficult problems to the Regional Small Industries Service Institute concerned for advice, and also for visiting small scale factories to suggest improved designs and better techniques of manufacture.

Industrial Extension Centres.

The technical staff under the Development Commissioner prepared in 1956, 44 model schemes for guidance for small industrialists. Special welfare schemes primarily designed to enable womenfolk of lower income group to supplement their incomes were taken up.

Technical training abroad through the assistance of the Ford Foundation for persons actually working in small scale units was also arranged. Vigorous attempts are being made by the Government for an export market for the products of small scale industries.

Technical training abroad.

Export market for small industries' production.

[1] The following Extension Centres were sanctioned for the industries mentioned against each of them during 1956-57. *Southern Region*: Coimbatore—Foundry and Metal Working; Erode—Leather finishing; Shoranpur—General Engineering and cutlery shop; Vijayawada—Engineering and Foundry; Trichur—Footwear; Muvattupuzha—Tin Containers and Tin Printing; Alleppey—General Engineering; Veniamkullam—Leather goods; Attingal—Stainless Steel Utensils. *Western Region*: Poona—Machine shop, Forging and Heat Treatment, Smithy Sheet and Welding shop; Belgaum—Machine Shop, Foundry Sand Testing and Mechanical Testing; Nadia—Machine Shop, Carpentry, Forging and Heat Treatment; Kolhapur—Machine Shop, Forging and Heat Treatment, Mechanical Testing, Foundry and Sand Testing; Varud—Log Cutting, Carpentry and Oil Engines and Pump Repairing Shop; Bhavnagar—Machine Shop Foundry and Sand Testing; Jamnagar—Electroplating; Savarkundla—Forging and Heat Treatment; Khanapur—Cups and Saucers; Gwalior—Machine Shop, Forging and Heat Treatment, Smithy Sheet Metal and Welding shop; Amaraoti—Steel Metal; Uppain—Machine Shop; Indore—Clock Manufacturing Centre. *Northern Region*: Ambala—Scientific Glassware; Jullundhar—Sports Goods; Batala—Foundries and Agricultural Implements; Firozabad—Pressed Glassware and Bangles; Faridabad—Blacksmithy and Carpentry Shop; Kaithal—Carpentry and Blacksmithy Shop; Rewari—Metal Industry and Leather Footwear; Meerut—Sports Goods; Roorkee—Surveying and Drawing Instruments; Kanpur—Bicycles Parts and Bicycles; New Delhi—Bal Saliyog. *Eastern Region*: Belgharia—Ceramic Industry; Nabadwip—Brass and Bell Metal Industry; Tangra—Tannery; Maniktala—Footwear Industry; Dhanbad—General Engineering Industry; Muzaffarpur—General Engineering Industry; Cuttack—General Engineering Industry; Berhampore—General Engineering Industry; Bhubaneswar—Brass and Bell-Metal Industry; Gauhati—Wood Working Industry; Karanga—Smithy and General Engineering; Silchar—Smithy and General Engineering.

7. ASSISTANCE TO COTTAGE INDUSTRIES

In the sphere of cottage industries, the Second Five Year Plan seeks not only to provide increased employment in traditional village industries but also to avoid the periodical technological unemployment which occurs in them. The State Governments are primarily responsible for the development of cottage industries. Central assistance is given mainly to supplement the resources and efforts of the State Governments.

Khadi Industry.

Financial assistance to the Khadi industry is given by the All India Khadi and Village Industries Board through co-operatives, registered societies and, the Boards set up by the State Governments where they exist. To encourage the production of khadi, a subsidy of three annas in a rupee is allowed to the consumer while a subsidy of five annas per square yard is given to those who produce khadi for their own use and of six annas a rupee to the centres engaged in the production and sale of khadi. As a result of these measures the value of production and the value of sale of khadi increased from Rs. 194 lakhs and Rs. 195 lakhs respectively in 1952-53 to Rs. 450 lakhs and Rs. 498 lakhs respectively in 1955-56.

Ambar Charkha.

A decision was recently taken to introduce an improved type of spinning unit called the Ambar Charkha. This has 4 spindles and enables a spinner to produce about 6 hanks a day in 8 working hours. The Karve Committee on Village and Small-scale industries (1955) recommended that the additional requirements of cloth during the period of the Second Plan should be met from the decentralised sector. Some 3,000 lakh yards of cloth are to be produced by the handlooms from hand-spun Ambar yarn.

The Government sanctioned the introduction of 75,000 Ambar Charkhas during 1956-57, involving about Rs. 4 crores as grants and loans. Upto December, 1956, 37,175 Ambar Charkhas were manufactured, 2,14,711 lb. of yarn were spun, and 5,83,884 sq. yards of cloth were woven. The main purpose of decentralised spinning on an extensive scale is to provide the requirements of handlooms which are otherwise completely dependent upon mill yarn and also to offer pros-

pects of part-time and full-time employment to several lakhs of unemployed and under-employed persons in the country.

Village Industries.

The volume of sanctions and disbursements for village industries under the purview of the All India Khadi and Village Industries Board was substantially increased during 1956-57. Among the industries which were assisted were: Handpounding of Paddy, Atta Chaki, Village Oil, Village Leather, Cottage Matches, Gur and Khandsari, Palm Gur, Soapmaking with non-edible oil, Bee-keeping, Village Pottery and Fibre.

The Central Silk Board.

The Central Silk Board was constituted in the year 1949. The Board is charged with the responsibilities of organising the development of the silk industry in India in all its aspects. It assists the State Governments in the formulation of schemes for the development of sericulture and recommends financial assistance by the Central Government towards such schemes. It coordinates the development work in the States and undertakes schemes for research, training and development of special race of silk worms. The work of development of the silk weaving industry is, however, at present, looked after by the Handloom Board. The head-quarters of the Central Silk Board was shifted from Bombay to Bangalore, the centre of the sericulture industry, on the 1st February, 1957.

The Central Silk Board had drawn up a comprehensive plan for the silk industry at a total outlay of Rs. 6·68 crores under the Second Five Year Plan. Since its inception in 1949, the Board has been recommending grants-in-aid and loans to the State Governments for the development of the industry. Till the end of 1955-56, the Government of India sanctioned a sum of Rs. 59·37 lakhs to the State Governments as grant-in-aid.

The stabilisation of the market for silk by regulation of import of raw silk helped in infusing a sense of security amongst the sericulturists. It has also helped the Central Silk Board to pursue the development programmes for the industry on a planned basis.

CHAPTER XXV

INDUSTRIAL FINANCE

1. GENERAL OBSERVATIONS

Reports of the Industrial Commission and External Capital Committee. Central Banking Enquiry Committee.

The problem of industrial finance in India has engaged considerable attention in recent years. The question was brought to the forefront by the Industrial Commission in their Report published in 1918. It was also considered by the External Capital Committee in 1924. But it received full attention from the Central Banking Enquiry Committee in 1929. Not only did the Committee make a detailed examination of the entire banking system of the country, but it also conducted a searching enquiry into the then existing position of industrial finance in India, particularly the part played by the Indian banks in providing it.

Two kinds of finance needed.

Broadly speaking, organised industry requires two kinds of finance, namely, fixed (or block) capital and floating (or working) capital. The former includes not only the initial capital for the purchase of land, the erection of factory buildings and the installation of plant and machinery, but also the funds required for extension, replacement, and reorganisation. The floating or working capital is required for the payment of wages, the purchase of raw materials and stores, marketing charges, and other current expenses. The problem of industrial finance in India relates both to the provision of long-term financial facilities and to the supply of current finance. In Western countries the short-term financial needs of industries are met without much difficulty, and there the complaint is chiefly made about the inadequacy of long-dated capital. But in India, industries suffer not only from a lack of long-term financial facilities but also from the insufficiency of working capital and the heavy cost of obtaining it.

Indian investors are proverbially nervous about industrial shares and debentures. Land constitutes perhaps the most attractive field for investment. After land, come Government securities, postal cash certificates, other Government loans, and

Port Trust and municipal debentures. A very small proportion of the people's savings is put in industrial shares. India's banking system is modelled not on the Continental system but on the pre-war English system of deposit banking and is ill-adapted for the task of long-term industrial financing. Issue Houses, Investment Banks, and Underwriting Firms are conspicuous by their absence in India. There is hardly any organisation in the country which grants long-term loans to industries against their fixed assets. In these circumstances, industries experience great difficulties in raising their long-dated capital. Cases in which the share capital is over-subscribed are exceptional, and in the majority of instances the amount obtained from share capital is inadequate even for the initial fixed capital expenditure. Debentures, again, are not a popular form of investment in this country; and it is almost impossible for industries either to supplement their share capital or to obtain the necessary finances for extension and re-organisation by resort to this method.

Current finance.

It often happens that the capital raised by the issue of shares is soon spent in the erection of factory buildings and the installation of the necessary plant and machinery, very little being left for meeting the current expenses. Most industrial concerns, therefore, have to seek finance from outside sources. But the difficulty of securing this finance is great, and the cost of obtaining it is enormous. The State Bank and the Joint-stock Banks play some part in the provision of this sort of finance. But industrial concerns are severely handicapped by the fact that the banks do not lend only against the hypothecation of liquid assets but insist on the guarantee of the managing agents.

Banks, however, are not the only or even the chief source of supply of current finance for industry. In the cotton mill industry of Bombay and Ahmedabad, the financial assistance provided by the banks is of an insignificant character. In the former, 9 per cent., and in the latter, only 4 per cent. of the total finance required by the mills were obtained from the banks in 1930. Public deposits are the most important source from which the mills in Bombay and Ahmedabad obtain their current finance. These constituted 11 per cent. of their total finance in Bombay and as much as 39 per cent.

in Ahmedabad[1] in 1930. In ordinary times, the system has certain inherent advantages, and cotton mills under sound and prudent management were immensely benefited under it during the last 30 or 40 years. But it is a fair-weather friend and is likely to prove a source of great embarrassment in times of crisis when the public make sudden and heavy withdrawals. In recent years, this source of supply of current finance has considerably dried up. During the Economic Depression large withdrawals were made; a considerable number of business hours was landed in disaster.

The Managing Agency system. Reference has already been made to the important part played by the Managing Agency system in providing financial assistance to industries. But the system is a costly one. The rates of interest charged by them are much higher than what would be justifiable.

2. SEPARATE INSTITUTIONS FOR FINANCE

Need of Industrial Credit Corporation. The necessity of setting up special institutions for solving the problem of industrial finance in India was recognised by the Industrial Commission as well as by the Central Banking Enquiry Committee. The Industrial Commission favoured the establishment of an institution in India on the lines of the Industrial Bank of Japan. The Central Banking Enquiry Committee recommended that Provincial Governments should take the initiative in starting Provincial Industrial Corporations.

It was further suggested by the Committee that an All-India Industrial Corporation might also be established. Before World War II, only two Provincial Governments started special institutions for the financing of industries. **Industrial Credit Syndicate of Bengal.** The Industrial Credit Syndicate of Bengal was registered in March, 1937, with an authorised capital of Rs. 50,00,000, with the special object of financing small and cottage industries in the province. In the United Provinces, the Industrial Finance Committee (1935) recommended the establishment of a joint-stock bank under the title of the United Provinces Credit Bank Ltd., with the distinct object of providing both long- and short-term financial facilities to the provincial industries. **The United Provinces Industrial Corporation.**

[1] *Indian Central Banking Enquiry Committee's Report*, vol. i, pt. 1, p. 278.

The initial authorised and issued capital should be fixed at Rs. 25 lakhs, and the Provincial Government should guarantee a dividend on the initial paid-up capital of the Bank at the rate of 4 per cent. *per annum* free of income-tax. These were, however, extremely feeble efforts. These institutions failed either because they were not established on a firm footing or because they were not conducted on sound principles. While, therefore, these failures should afford lessons for the more careful management of similar institutions in future, their failures should not be regarded as a ground for doubting the success of well-conceived and well-conducted schemes for financing Indian industries.

The Industrial Finance Corporation.

No action appears to have been taken by the Central Government on the recommendations of the Central Banking Enquiry Committee until 1946, when Sir Archibald Rowlands introduced a Bill in the Legislature for the establishment of an Industrial Finance Corporation of India. This Bill was subsequently modified in some respects and passed. It was assented to by the Governor General on the 27th March, 1948. The purpose of establishing the Corporation was to make more readily available to "industrial concerns" in India medium- and long-term credits, particularly, in cases where normal banking accommodation was inappropriate or recourse to capital-issue-methods was impracticable.

The authorised capital of the Corporation was fixed at Rs. 10 crores, divided into 20,000 shares of Rs. 5,000 each, the paid-up capital being Rs. 5 crores in respect of 10,000 shares issued from the 9th to the 11th August, 1948. Of the capital, issued in the first instance the Central Government and the Reserve Bank were each to subscribe for 2,000 shares, scheduled banks for 2,500 shares, insurance companies, investment trusts and other financial institutions for 2,500 shares and co-operative banks for 1,000 shares. The Corporation was empowered to issue and sell bonds and debentures not exceeding at any time five times the amount of the paid-up share capital and the reserve fund of the Corporation. The shares as well as the bonds and debentures of the Corporation were guaranteed by the Central Government in respect of the repayment of principal and payment of interest and dividend. The Corporation was further empowered to receive deposits repayable not less than five

years from the date of their making and not exceeding the amount of ten crores of rupees.

Functions of the Corporation.

The Corporation has been established for the purpose of financing large-scale private industries in our country. Such private industries will have to be public limited companies. It will render its assistance to such industries in three principal ways. It may guarantee long-term loans not exceeding 25 years raised by industrial concerns; it may underwrite the issue of stock, shares, bonds or debentures by industrial concerns; and finally, it may grant loans or advances to, or subscribe to debentures of industrial concerns, repayable within a period not exceeding 25 years.

The Corporation has been definitely prohibited from subscribing to the share capital of limited liability companies. The Corporation has been authorised to borrow upto five times the amount of its paid-up capital and its reserve fund.

The general superintendence and direction of the affairs of the Corporation have been entrusted to a Board of twelve Directors, of whom four are nominated by the Central Government and two by the Reserve Bank, and six are representatives of scheduled banks, insurance companies, investment trusts and other financial institutions, and co-operative banks. The Board is to be guided by such instructions on questions of policy as may be given to it by the Central Government.

The Corporation has not so far received any fixed deposits from the public, nor has it borrowed any foreign currency. The Corporation does not hold any debentures, nor does it underwrite any issues of industrial concerns or guarantee loans made to them.

With a view to enlarging the scope of the activities of the Corporation and augmenting its resources, the Industrial Finance Corporation Act was amended in 1952. The important provisions of amendment are: (*a*) The scope of the Corporation's activities has been extended by authorising it to grant loans and advances to companies engaged in shipping.

Loans granted.

(*b*) The number of directors to be nominated by the Central Government on the Board of the Corporation has been increased from 3 to 4.

Ratio of interest.

(*c*) The Corporation has been authorised to open deposit accounts with Scheduled Banks or State Co-operative Banks in consultation with the Reserve Bank.

(*d*) The limit of accommodation to any single industrial concern has been increased from Rs. 50 lakhs to Rs. 1 crore. The Corporation has been authorised to make advances exceeding Rs. 1 crore to a single concern, if the loan is guaranteed by the Government of India.

Financial resources.

The Corporation has been authorised to borrow from the Reserve Bank against (*i*) securities of the Central Government or of a State Government payable on demand or for fixed periods not exceeding 90 days; and (*ii*) against bonds and debentures issued by the Corporation maturing and repayable within a period not exceeding 18 months, provided the amount borrowed at any time does not exceed Rs. 3 crores in the aggregate.

Answering the criticism that the Corporation had not taken a broad view of the needs of the industrial development of the country, particularly the industrially backward areas, the Chairman of the Corporation pointed out that the Corporation was a finance and not a development Corporation.

Activities of the Corporation criticised.

The work of the Industrial Finance Corporation has not been regarded as satisfactory by many industrialists and the general public. Charges of inefficiency, favouritism and corruption have been frequently levelled against the Corporation. In order to investigate these charges a Committee was appointed by the Government of India which published its report in 1953. In March, 1954,, the Government was severely criticised in Parliament for not fully implementing the recommendations of the Committee to enquire into the working of the Industrial Finance Corporation and for taking a lenient view of the abuses which had been found to exist in its working.

Since its inception in July 1948 upto March 31, 1956 the Corporation sanctioned loans for Rs. 38·60 crores, of which Rs. 16·24 crores were actually disbursed. The outstanding loans and advances stood at Rs. 14·01 crores on March 29, 1956 and constituted over 95 per cent. of the total assets. The net increase in outstanding loans and advances during the five years 1951-56 amounted to Rs. 8·80 crores.

The year 1955-56 witnessed a marked increase in the activity of the Industrial Finance Corporation of India. The Corporation sanctioned loans aggregating Rs. 13·39 crores to 41 industrial concerns. The principal borrowing industries were

sugar, chemicals, paper, cotton textile and cement. While most of the loans were granted to public limited companies, loans aggregating Rs. 3·30 crores were sanctioned to 8 sugar co-operatives.

In pursuance of the recommendations of the Industrial Finance Corporation Enquiry Committee, which published its report in 1953, the Industrial Finance Corporation Act, 1948 and State Financial Corporations Act, 1951 were amended in 1955. In the case of the Industrial Finance Corporation of India, the amending Act provided, among other things, for a 'Central Committee' instead of an Executive Committee of the Board of Directors, and the appointment of a Stipendiary Chairman to be assisted by a General Manager in place of the honorary Chairman and a paid whole-time Managing Director. Among the other importnt amendments, mention may be made of the provisions for (i) the grant of right to the corporation to borrow from the Central Government, and to lease any property pledged or mortgaged to the corporation and (ii) the removal, with the permission of the Central Government, of the seven-year limit in respect of the period upto which the Corporation may hold any stocks, shares, bonds, or debentures in fulfilment of its underwriting liabilities. The amending Act also enabled industrial concerns, formed with the object of engaging in the manufacture or processing of goods, to become eligible for financial assistance even before they start production.

Present position.

During the year 1956-57, there was a slight decline in the number of companies to which loans were granted. The principal borrowers were sugar, chemicals, cotton-textiles and engineering industries. Since its inception in July 1948 upto March 31, 1957, the corporation has sanctioned loans aggregating Rs. 48·36 crores in respect of 233 applications. The amount disbursed rose steeply from Rs. 2·17 crores in 1955-56 to Rs. 7·86 crores in 1956-57. The outstanding loans and advances rose further from Rs. 14·01 crores on March 29, 1956 to Rs. 20·70 crores on March 29, 1957, constituting 95 per cent of the total assets. To enable the Corporation to meet the increasing demand from industrial concerns for financial assistance, a sum of Rs. 13·5 crores, has been provided in the Second Five-Year Plan as Central Government loans to the

Corporation. The Corporation's borrowing from the Reserve Bank increased from Rs. 0·61 crore on March 29, 1956 to Rs. 2·99 crores on December 28, 1956, after which there was a decline to Rs. 1·06 crores on March 29, 1957- a net increase of Rs. 0·45 crore over the year.

State Finance Corporations.

The State Financial Corporations Act, 1951 provided for the setting up of State Finance Corporations for financing medium and small-scale industries, which do not fall strictly within the scope of the Industrial Finance Corporation. The share capital of a State Corporation is not to be less than Rs. 50 lakhs and not more than Rs. 5 crores. The State Governments are to, with the approval of the Central Government, determine the number of shares which may respectively be distributed among—the State Governments, the Reserve Bank, scheduled banks, insurance companies, investment trusts, co-operative banks or other financial institutions, and other parties. It can carry on and transact the following kinds of business, namely, (*a*) the guaranteeing on such terms and conditions as may be agreed upon of loans raised by industrial concerns which are repayable within 20 years and are floated in the public market; (*b*) the granting of loans or advances to, or the subscribing to debentures of industrial concerns repayable within 20 years; (*c*) the underwriting of the issue of stocks, shares, bonds, or debentures by industrial concerns.

Progress 1955-56.

In pursuance of the State Financial Corporations Act, most of the States established State Financial Corporations. Upto 1955-56 the total number of State Financial Corporations came to thirteen. During 1955-56 the activities of the State Financial Corporations recorded an expansion. Of the total amount of Rs. 3·03 crores of loans sanctioned, Rs. 1·54 crores were actually disbursed during the year; the total amount outstanding at the end of March, 1956 was Rs. 2·68 crores.

Conference.

In November, 1955, a Second Conference of the representatives of the State Financial Corporations was held under the auspices of the Reserve Bank of India. The Conference discussed the question of co-ordination between the State Financial Corporations and other agencies in providing financial assistance to small-scale industries and also problems pertaining to the internal working of the State Financial Corporations, e.g. the formula for grant of loans for working

capital, security for loans, standardisation of the form of balance sheets etc., but with regard to the demarcation of activities between the State Financial Corporations and the State Governments, it was generally agreed that the Corporation might not be in a position to deal with applications for loans of relatively small amounts and, therefore, a minimum limit might be fixed below which financial assistance might be provided by the State Governments through departmental agencies.

1956-57. The year 1956-57 witnessed an expansion in the activities of the State Financial Corporations. Both the amount sanctioned and the amount disbursed during the year were larger at Rs. 4·43 crores and Rs. 2·86 crores, as against Rs. 4·05 crores and Rs. 1·47 crores, respectively, in the preceding year. The total amount of outstanding loans and advances increased further from Rs. 4·03 crores to Rs. 6·45 crores and constituted 46 per cent of the total assets, as against 32 per cent last year.

The number of State Financial Corporations, declined by two through amalgamations—The Bombay and Saurashtra Financial Corporations were amalgamated to form the Bombay State Financial Corporation ; the Andhra and Hyderabad State Financial Corporations were amalgamated to form the Andhra Pradesh State Financial Corporation. Since then, therefore, there are 11 State Financial Corporations, including the Orissa State Financial Corporation, but excluding the Madras Industrial Investment Corporation Ltd., which has become a separate institution under the Indian Companies Act in 1949.

The State Financial Corporations Act was amended in several respects by the State Financial Corporations (Amendment) Act, 1956, which came into force from October 1, 1956. The amended Act provides for: (*i*) setting up of joint financial corporations for two or more States or extension of jurisdiction of a Corporation to other States ; (*ii*) acting of Corporation as agents for the Central or State Governments or the Industrial Finance Corporation of India, in the transaction of any business with an industrial concern in respect of loans or advances granted or debentures subscribed by any of them ; (*iii*) granting of financial accommodation to industries against the guarantee of the State Government, a scheduled bank or a State Co-operative Bank, (*iv*) short-term borrowings by the

corporations from the Reserve Bank against Government securities; and (*v*) inspections of the corporations by the Reserve Bank.

National Industrial Development Corporation.

The National Industrial Development Corporation was established on October 20, 1954, primarily for the financing of industries only in so far as they are incidental to planned development. It will give priority to the manufacture of capital goods, machinery and equipment for other industries and take up the study and investigation of industrial schemes; in implementing them, it will try to secure, where possible, the maximum use of industrial equipment, experience and skill available in the private sector. It might even set up industries, which would in their turn lead to the growth of ancillary industries in the private sector.

The Corporation has been registered as a private limited company with an authorised capital of Re. 1 crore and a paid-up capital of Rs. 10 lakhs, which has been provided entirely by the Government of India. The Corporation is empowered to increase its financial resources by issuing shares and debentures. A provision of Rs. 1·49 crores was made for 1956-57 (R.E.); the budget estimates for 1957-58 make a larger provision of Rs. 4·50 crores.

During 1955, the Corporation undertook a number of industrial projects including steel foundries, forges and fabrication of steel structurals, intermediates for dyestuffs, wood pulp, carbon black, sulphur from pyrites, printing machinery, air compressors and fractional horse power motors and refractories. Detailed investigation regarding these projects were in progress in collaboration with foreign firms and experts when necessary. It was decided to use the Corporation as Government's agency for the grant of special loans for the rehabilitation and modernisation of the jute and cotton textile industries and two committees were set up to examine applications from these two industries. The Corporation has so far sanctioned about Rs. 1·95 crores to six cotton textile mills and Rs. 55 lakhs to two jute mills. The loans given by the Corporation bear interest at 4½ per cent per year and repayable in 15 annual instalments.

Corporation of India.

The Industrial Credit and Investment Corporation of India is a privately sponsored institution established on January 5,

Industrial Credit and Investment Corporation. 1955 for the purpose of assisting industrial enterprises within the private sector. In general, the Corporation will (1) assist in the creation, expansion and modernisation of such enterprises, (2) encourage and promote participation of private capital, both internal and external, in such enterprises, and (3) encourage and promote private ownership of industrial investment and the expansion of investment markets. In particular, it will (*i*) provide finance in the form of long or medium-term loans; (*ii*) sponsor and underwrite new issues of shares and securities, (*iii*) guarantee loans from other private investment sources ; (*iv*) make funds available for re-investment by revolving investments as rapidly as might be prudent, and (*v*) furnish managerial, technical and administrative advice and assist in obtaining managerial, technical and administrative services to Indian industry.

The authorised capital of the Corporation is Rs. 25 crores, divided into 5 lakh ordinary shares of Rs. 100 each and 20 lakh unclassified shares of Rs. 100 each. The issued capital at present is Rs. 5 crores, comprising 5 lakh ordinary shares of Rs. 100 each issued at par. Of this amount, Rs. 2 crores was taken up by several Indian banks and insurance companies and certain of the directors of the Corporation and their friends and associates, Re. 1 crore by British Eastern Exchange banks and certain U. K. and other Commonwealth insurance companies and other British companies and Rs. 50 lakhs by certain nationals and corporations of the U.S.A.

The Government of India agreed to advance to the Corporation a sum of Rs. 7·5 crores, free of interest, repayable in 15 equal annual instalments after the expiry of 15 years from the date of the advance. The advance will rank for payment only after payment of all outstanding debts and liabilities and the paid up share capital of the Corporation.

The International Bank for Reconstruction and Development has agreed to lend to the Corporation an amount in various currencies equivalent to $10 million for the purchase of imported material, equipment and services. The loan will be for a term of 15 years and bear interest at 4-5/8 per cent, including the statutory 1 per cent commission charged by the Bank. Repayment of the principal, interest and other charges

on the loan has been guaranteed by the Government of India.

The Corporation is empowered to borrow provided the amount borrowed and guaranteed by the Government does not exceed three times the aggregate of its unimpaired capital, its surplus and reserves and the outstanding advance from the Government of India.

After the expiry of five years from its incorporation, the Corporation will be required to transfer 25 per cent of its profit every year to a Reserve Fund to meet contingencies and for other purposes conducive to the interests of the Corporation until the Reserve Fund is equal to the outstanding Government advance.

Upto December, 1955, it made financial assistance ranging between 5 lakhs and Re. 1 crore each available in the case of 5 applications out of a total of 11 applications. The industries covered by these applications included the manufacture of paper, electrical equipment, fuel injection equipment, chemicals and equipment for textile industry. The Corporation has given considerable attention to underwriting issues of capital. An important issue underwritten by the Corporation during the period was that of the West Coast Paper Mills, the amount underwritten being Re. 1 crore.

During 1956, the Corporation agreed to give financial assistance for a total amount of Rs. 6·01 crores in respect of 24 applications and a further 15 applications involving a total amount of Rs. 6 crores were under examination at the end of the year. The Corporation sanctioned Rs. 2·95 crores in respect of 10 loans, Rs. 2·38 crores for underwriting 7 issues of ordinary and preference shares and Rs. 68 lakhs towards direct subscriptions to 8 ordinary and preference share issues. Because of the comparatively small rise in loans and investments in industrial companies during the year, the Corporation's assets continued to be highly liquid. As regards the financial resources of the Corporation, its paid-up capital remained unchanged at Rs. 5 crores and the interest-free advance from the Government of India, repayable in 15 equal annual instalments after 1970, at Rs. 7½ crores. The total income of the Corporation rose from Rs. 34 lakhs in 1955 to Rs. 43 lakhs in 1956.

Refinance Corporation.

Financial facilities for medium-sized industries are being expanded. The Government have decided to set up a 'Refinance Corporation' to provide medium-term sector's facilities for medium-sized industrial units in the private sector. Fifteen leading banks in the country and the life insurance corporation have been invited to participate in the Corporation. The Corporation will start with an ordinary share capital of Rs. 12·5 crores, which may be increased later, the shares of the various institutions will be as under: Reserve Bank of India (Rs. 5 crores) and the Life Insurance Corporation, the State Bank of India and other scheduled banks (Rs. 2·5 crores each). The Government will also place with the Corporation American Counterpart funds in connection with imports under U.S. P.L. 480 to the extent of Rs. 26 crores as an interest-bearing loan for 30 years.

National Small Industries Corporation.

A National Small Industries Corporation (Private), Ltd. was started in February, 1955, with a view to assisting, financing, protecting and promoting small industries in India. Industries ordinarily employing less than 50 persons working with power, or less than 100 persons working without power, and having capital assets not exceeding Rs. 5 lakhs, will come within its purview. The main objectices of the Corporation would be: (*i*) to secure a reasonable share of the Government orders for small-scale units; (*ii*) to provide such units as may have secured orders, with loans and technical assistance necessary for fulfilling such orders and for manufacturing articles of the type and standard required; and (*iii*) to enable the small-scale industries to manufacture ancillaries, components and other articles required by the large-scale industries.

3. PROBLEM OF INDUSTRIAL CAPITAL

Views of Industrial Commission and Fiscal Commission (1921-22).

The problem of industrial capital in India has a long history. The Indian Industrial Commission of 1916-18 found the reluctance of the Indian investor to risk his money in new undertakings unless they were related to industries which had been established and worked for a long time. This reluctance proved to be a serious obstacle in the way of industrial expansion. The Fiscal Commission of 1922 confined itself to the issues connected with the import of foreign capital.

The difficulty about the availability of capital which has

handicapped industrial development since its very beginning still continues. It has now become extremely acute because of the expansion of industries. Capital formation is a long process, which is logically susceptible of division into three stages: (*a*) the first stage is concerned with the creation of savings, *i.e.*, a surplus resulting from an excess of income over expenditure; (*b*) the second stage is related to the mobilisation and canalisation of savings; and (*c*) the third stage is concerned with actual spending on capital goods.

The problems arising at each stage are: first, the problem of saving is dependent on (*a*) the will to save, (*b*) the capacity to save, (*c*) the leakages that take place from the stream of savings, and (*d*) the addition to the stream of savings. Then comes the problem of conversion of savings into investable funds. Thirdly, arises the problem of the utilisation of the investable funds for the acquisition of capital goods.

Capital dependent on saving and investment.

The difficulty of securing investable funds for financing industrial undertakings became acute since the beginning of 1947. From the middle of 1948, however, difficulties of short-term finance began to be increasingly felt, due, among other factors, to the expansion in export trade, insufficiency of transport resulting in the locking up of the funds which lasted till about the middle of 1949, increasing holding of stock in storages, and the rise in prices. The position in this respect slowly and gradually improved to some extent after the middle of 1949. Although the difficulty of large-scale industry in regard to short-term funds has somewhat eased in recent years, small-scale industries still find it extremely difficult to secure working capital. The main hindrances to capital formation are as follows: widespread misgivings about the policy of nationalisation existed in spite of the Industrial Policy Statement of the Government of April 6, 1949. Another hindrance is the high level of taxation. The malpractices on the part of some managing agents is the third hindrance. Gambling in Stock Exchanges is also one of the causes hindering capital formation. Further, the control of capital issues in an injudicious manner is prejudicial to the growth of capital.

Difficulty great.

Main hindrances to capital formation.

The Fiscal Commission of 1949 examined at length India's demand for capital consisting of two components, *viz.*, the capital necessary for the maintenance of the existing enter-

prises of the community and the capital required for new investment. After analysing India's savings and investments, the Commission came to the conclusion that there was a big gap between India's domestic savings and her minimum capital requirements.

Big gap between savings and capital-requirements.

As it is not likely that during the next few years India will be able to secure, by internal savings, the amount of capital needed for its industrial requirements, the need for foreign capital becomes apparent. There is another reason why the country will need foreign capital in the immediate future. India's development plans will entail heavy expenditure on capital goods and equipment, much of which will have to be imported from abroad and paid for in foreign currency. With India's present balance of payments position, the only way of obtaining these imports would be to draw on the sterling balances if we do not resort to foreign capital.

Need for foreign capital.

There are, besides, other secondary advantages that India can derive from a judicious import of foreign capital. In so far as foreign capital is accompanied by technical knowledge, including industrial research facilities or the training of technicians, managers and administrators on modern methods, the financial arguments in favour of imports of foreign capital are further strengthened.

Fields for foreign capital.

As regards the fields to which foreign capital should be invited, it should be confined to: (*a*) the public sector of the economy which depends on the import of capital goods, plant, machinery, equipment, stores, etc., from abroad, and (*b*) undertakings in the private sector which involve new lines of production and where indigenous capital and management are not likely to be forthcoming.

Policy enunciated in Government resolution.

The Government policy regarding foreign capital was announced in the Government of India's resolution of the 6th April, 1948. Strict regulation of foreign capital was needed when India was a subject country. But, after the advent of independence, the situation has become somewhat different. The object of regulation should, therefore, be the utilisation of foreign capital in a manner most advantageous to the country. Indian capital needs to be supplemented by foreign capital not only because our national savings are not enough for the rapid development of the country but also because,

in many cases, scientific, technical and industrial knowledge and capital equipment can best be secured with foreign capital. In order to give foreign investors an assurance regarding their future position, the Prime Minister made the policy of the Government quite clear in this matter. He said:

Prime Minister's statement, April, 1949.

"*In the first place*, I would like to state that the Government would expect all undertakings, Indian or foreign, to conform to the general requirements of their industrial policy. As regards existing foreign interests, Government do not intend to place any restrictions or impose any conditions which are not applicable to similar Indian enterprise. Government would also so frame their policy as to enable further foreign capital to be invested in India on terms and conditions that are mutually advantageous.

Secondly, foreign interests would be permitted to earn profits, subject only to regulations common to all. We do not foresee any difficulty in continuing the existing facilities for remittance of profits, and the Government have no intention to place any restriction on withdrawal of foreign capital investments, but remittance facilities would naturally depend on foreign exchange considerations. If, however, any foreign concerns come to be compulsorily acquired, the Government would provide reasonable facilities for the remittance of proceeds.

Thirdly, if and when foreign enterprises are compulsorily acquired, compensation will be paid on a fair and equitable basis as already announced in Government's statement of policy.

Government have stated before that, as a rule, the major interest in ownership and effective control of an undertaking should be in Indian hands. They have also stated that power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. Obviously there can be no hard and fast rule in this matter. The Government will not object to foreign capital having control of a concern for a limited period, if it is found to be in the national interest and each individual case will be dealt with on its merits. In the matter of employment of personnel, Government would not object to the employment of non-Indians in posts requiring technical skill and experience, when Indians of requisite quali-

fications are not available, but they attach vital importance to the training and employment of Indians even for such posts in the quickest possible manner.

I should like to add a few words about British interests in India which naturally form the largest part of foreign investments in India. Although it is the policy of the Government of India to encourage the growth of Indian industry and commerce (including such services like Banking, Shipping and Insurance) to the best of their ability, there is and will still be considerable scope for the investment of British capital in India. These considerations will apply equally to other existing non-Indian interests. The Government of India have no desire to injure in any way British or other non-Indian interests in India and would gladly welcome their contribution in a constructive and co-operative role in the development of India's economy."

Response to appeal inadequate.

The Prime Minister, during his visit to the United States and Britain in 1948 and 1949, tried to impress on foreign investors the desirability of investing their funds in Indian enterprises. But so far very little foreign investment has taken place.

Additional incentive announced, June, 1950.

An additional incentive to dollar investment in India was contained in the new and easier terms, announced on the 30th June, 1950, for the repatriation of foreign capital.

Undue reliance on foreign capital harmful.

Foreign capital is needed in India at the present moment, but we must not place too much reliance on it. The Fiscal Commission, 1949-50 rightly observed, "while it should be the duty of State policy to create and maintain conditions favourable to the inflow of all such foreign capital as desires to come to India, it must concentrate on the development of the domestic sources. Foreign capital can, at the best, supplement the country's domestic resources". While we should welcome foreign capital, we should always be on our guard against foreign influence, economic or political, coming in the train of foreign capital, for such influence may undermine the basis of our economy and ultimately become a menace to the preservation of the independence of our country.

CHAPTER XXVI

BANKING AND CURRENCY PROBLEMS

1. EVOLUTION OF THE RESERVE BANK

First Proposal, 1836.

Proposals for an institution similar to a Central Bank were submitted as early as 1836 to the Directors of the East India Company by a number of English merchants. Similar proposals were considered again in 1860, when the Government was contemplating the taking over of the Note Issue from the Presidency Banks, and again in 1867, when the Bank of Bombay went into liquidation. A proposal for a State Bank was made by one of the members of the Fowler Committee of 1898. But none of these proposals could materialise owing to the opposition of the Government. The Chamberlain Commission referred to the question of a Central Bank, but did not commit themselves either way. A carefully drawn-up scheme for a State Bank was, however, submitted by Mr. J. M. Keynes (afterwards Lord Keynes) and Sir E. Cable, both of whom were members of the Currency Commission. When the three Presidency Banks were amalgamated and reconstituted as the Imperial Bank in 1920, it served to a certain extent to remove the difficulties arising out of the absence of a Central Bank. But it was felt in many quarters that it was no substitute for a Central Bank proper.

Hilton Young Commission's recommendations.

The Report of the Hilton Young Commission brought matters to a head. This Commission expressed the view that the necessity of unity of policy in the control of currency and credit for the achievement of monetary stability involved the establishment of a Central Banking system. They recommended that the Central Banking functions should be entrusted to a new organisation, to be called the Reserve Bank of India, and outlined the constitution, functions and capacities of this bank. The Commission rejected the idea of a State Bank, on the ground that such a bank would be susceptible to undesirable political influences, and they recommended the establishment of a Shareholders' Bank.

Bills of 1927.

These recommendations were embodied in a Bill which was placed before the Indian Legislative Assembly in January, 1927. A great deal of difference of opinion was expressed on the main provisions of the Bill. The Select Committee, to which the Bill was referred, altered some of its important provisions. That body decided that the Reserve Bank should be a State Bank. The composition of the Board of Management was substantially altered, and the disqualification sought to be attached to membership of legislatures was removed. The Bill as amended in the Select Committee was placed before the Legislative Assembly, and an animated discussion took place on the amendments. At this stage, a proposal was made on behalf of the Government to convert the proposed bank into a Stockholders' Bank. But the further progress of the measure was suspended under the direction of the Secretary of State for India. The then Finance Member paid a hurried visit to England to consult the authorities there, and on his return to India he placed before the Legislative Assembly a fresh Bill on the lines of the original measure with a few modifications in detail. The discussion of the new Bill was, however, disallowed by the President on the ground that the previous Bill was already under the consideration of the Assembly. The old Bill was then taken up, but the Government was defeated on the voting on one of its clauses. It was, therefore, dropped in February, 1928, and the whole question was postponed *sine die*.

Differences in Legislature. Later developments.

The Federal Structure Sub-Committee of the First Round-Table Conference, in their Report of 1931, expressed the opinion that "with a view to ensuring confidence in the management of Indian credit and currency, efforts should be made to establish on sure foundations and free from any political influence, as early as may be found possible, a Reserve Bank which will be entrusted with the management of the currency and exchange". Meanwhile, the Central Banking Enquiry Committe, in their Report published in June, 1931, had strongly urged the formation of a Central Bank at the earliest possible date, with a view to the development of banking in the country. The constitutional proposals embodied in the White Paper of 1933 assumed the establishment of a Reserve Bank prior to the inauguration of the new Constitution. Accordingly,

Report of the Federal Structure Sub-Committee of the First R. T. Conference.

Suggestions of the Central Banking Enquiry Com-

mittee.

The Reserve Bank Act, 1934.

Inaugurated in 1935.

a Committee, presided over by the Secretary of State, and consisting of 23 members, a number of whom were Indians, met in London in July, 1933, with the purpose of drafting the Reserve Bank Bill. Based on their Report, a Bill was introduced in the Indian Legislature in September, 1933, and passed by both Houses in February, 1934. It received the assent of the Governor-General on 6th March, 1934. The Reserve Bank of India was inaugurated on 1st April, 1935.

Reserve Bank—a share-holders' bank.

The Reserve Bank was established as a shareholders' bank, the original capital being Rs. 5 crores, divided into shares of Rs. 100 each, fully paid-up. Separate registers of shareholders were maintained at Bombay, Calcutta, Delhi, Madras, and Rangoon, shares being transferable from one register to another. Each shareholder had one vote for every five shares held, subject to a maximum of ten votes.

Offices.

The Bank had offices in London, Bombay, Calcutta, New Delhi, Madras, Bangalore, Kanpur, Nagpur and might establish branches or agencies in any other place in India, or, with the previous sanction of the Central Government, elsewhere.

Functions of the Reserve Bank.

As Government banker.

The functions of the Reserve Bank may conveniently be studied under three heads, *viz.*, as banker to the Government, as the currency authority of the country, and as the bankers' bank. As the Government's banker, the Reserve Bank accepts moneys and makes payments on behalf of the Government, and carries on their exchange, remittance, and other banking operations, including the management of the public debt and the issue of new loans. Besides, the Bank is entitled to receive the cash balances of the Government for deposit free of interest at places where the Bank has branches or agencies. The Provincial Governments opened separate banking accounts with the Reserve Bank commencing from 1st April, 1937.

Functions relating to currency.

Two depart-ments.

As currency authority, the bank has a monopoly of Note Issue, and it is under an obligation to buy and sell sterling with a view to maintaining the exchange value of the rupee in terms of sterling at 1*s.* 6*d.* For purposes of Note Issue, an Issue Department, separate from the General or Banking Department, was created. This Department took over all the gold held formerly in the Gold Standard and Paper Currency Reserves, together with a part of the other assets, so that the gold and the assets, taken together, might equal in value to

the total of the Government Notes in circulation at the time of the transfer. Liability for these Government Notes was also undertaken by the Issue Department. Both the Gold Standard Reserve and the Paper Currency Reserve were thus abolished and their resources concentrated.

Liabilities and assets of the Issue Department.

The liabilities of the Issue Department consist in the total of the Notes in circulation, including the old Government Notes in circulation, as also the Notes held in the Banking Department. Thus the Note Issue is made according to the proportional reserve system, and not the fiduciary reserve system, as heretofore. The bank-notes are legal tender and are guaranteed by the Government of India. They were first issued to the public in January, 1938.

Proportional reserve system.

Functions as the bankers' bank.

As the bankers' bank, or the Central Bank of the country, the position of the Reserve Bank is regulated by a number of provisions in the Act. Thus the kinds of business that the Bank may transact are here specified. These include the rediscounting of internal bills of exchange maturing within 90 days, and of agricultural bills maturing within 9 months. There is, besides, a provision for 'open market operations', when, in the opinion of the Bank, a special occasion for such operations arises. The Bank is prohibited, among other things, from competing with ordinary banks by engaging in trade, or otherwise taking a direct interest in any commercial or industrial undertaking, and from dealing in immovable property.

Restrictions on the Bank's activities.

The Bank's privileges.

As against the restrictions imposed on the Reserve Bank's activities by the Act, certain privileges were granted to it, such as the exemption of the Bank from the payment of income-tax or super-tax on its income and profits. Another privilege, essential to its functioning as a Central Bank, consists in its being entitled to hold the cash reserves of the more important banks of the country, which are designated as 'scheduled banks' in the Reserve Bank Act. The 'scheduled banks' include the State Bank, the chief Joint-Stock Banks and the Exchange Banks.

Agricultural Credit Department.

A special feature of the Reserve Bank is the Agricultural Credit Department, the duty of which is to study questions of agricultural credit and to co-ordinate the operations of the Bank in this direction as well as its relations with the

indigenous banking concerns and the provincial co-operative banks.

2. NATIONALISATION OF THE RESERVE BANK

For many years since its establishment the Reserve Bank had no independent existence of its own, so far as its large sphere of work was concerned. It was, for all practical purposes, a subordinate branch of the Bank of England. During World War II, it functioned as the note-printing press of the Government of India under the control of the British Government. In the narrower and internal sphere of its activities, however, the shareholders enjoyed some amount of freedom. But it never attained the position of a National Bank.

Reserve Bank, a Note-printing press in early days.

Not a national bank.

As has already been pointed out, the people as well as the legislature demanded the nationalisation of the Reserve Bank from its very inception. After Independence the demand gathered considerable force. There was a widespread feeling that the Reserve Bank was fast losing its status as a public institution and that its policies were being framed by a coterie of capitalists in their own interests. Vested interests had become firmly entrenched. The number of shareholders had considerably declined. Several bank failures and the reluctance or inability of the Reserve Bank to extend its assistance to the distressed institutions had also aroused a great deal of public resentment. The demand for nationalisation was voiced in the Indian legislature from time to time.

Demand for nationalisation.

A Bill to bring the share capital of the Reserve Bank of India under public ownership was introduced in the Constituent Assembly in August, 1948. This Reserve Bank of India (Transfer to Public Ownership) Bill, 1948 was passed by the Indian Legislature on 3rd September, 1948. The Act came into effect from 1st January, 1949.

Nationalisation Bill.

In the statement of Objects and Reasons, the following reasons were mentioned, for introducing the Bill, *viz.*, "to implement the Government policy that the Bank should function as a State-owned institution and to meet the general desire that the control of the Government over the Bank's activities should be extended to ensure a greater co-ordination of the monetary, economic and financial policies." The main provisions related to the acquisition of shares against payment

Objects.

Provisions.

of compensation, direction of policy, constitution of central and local boards and lastly, certain amendments consequent on India's membership of the international monetary institutions.

All shares transferred to Government.

All shares in the capital of the Bank were to be transferred to the Central Government, and as full compensation, the Government was to issue to every shareholder an amount calculated at the rate of Rs. 118-10as. per share (being the average of monthly market quotations during March, 1947—February, 1948) in promissory notes of the Central Government, bearing interest at 3 per cent per annum and repayable at par at such date as might be specified by the Government.

As regards management, the general superintendence and direction was to be entrusted to a Central Board composed of a Governor, two Deputy Governors, ten Directors (four of them representing the four Local Boards), and one Government official, all nominated by the Central Government.

The Central Government would have power to give such directions from time to time, after consultation with the Governor, as it might consider necessary in the public interest. The powers of the Government to remove the Governor or Deputy Governors or supersede the Central Board and to replace it by any other agency remained unaffected.

The Reserve Bank of India (Amendment) Act, 1955.

The Reserve Bank of India (Amendment) Act, 1955 empowered the Reserve Bank to set up two National Funds, viz. (*i*) the National Agricultural Credit (Long-Term Operations) Fund and (*ii*) the National Agricultural Credit (Stabilisation) Fund. The Reserve Bank constituted the first of these, viz., the National Agricultural Credit (Long-Term Operations) Fund, on February 3, 1956, with an initial sum of Rs. 10 crores. This Fund will make loans and advances to State Governments for subscribing to the share capital of co-operative credit institutions and to central land mortgage banks.

The Reserve Bank of India (Amendment) Act, 1956.

The Reserve Bank of India (Amendment) Act, 1956, sought to adapt the financial frame-work to the requirements of economic development under the Second Five Year Plan. It provided for the needed flexibility in note issue, while maintaining a specified quantity of reserve in gold and foreign securities. On the other hand, it simultaneously endowed the Reserve Bank with greater powers to restrain the creation of

credit by the commercial banks. Before the amendment, Section 33 (2) of the Reserve Bank of India Act required that not less than two-fifths of the assets of the Issue Department should be held in gold coin, gold bullion or foreign securities, the value of gold coin and bullion being not less than Rs. 40 crores; gold was valued at Rs. 21·24 per tola. In view of the restrictive nature of this provision in the context of the Plan requirements, the Amendment Act changed the proportional reserve system to that of a fixed minimum and prescribed a minimum holding of foreign securities of Rs. 400 crores and of gold coin and bullion of Rs. 115 crores, gold being revalued at Rs. 62·50 per tola, according to the parity rate agreed to by the International Monetary Fund. The Amendment Act also provided for the suspension of the provisions relating to the minimum holdings of foreign securities up to a maximum of Rs. 100 crores with the prior approval of the Central Government for a period of six months which could be extended from time to time but not exceeding three months at a time.

The most important amendment in respect of credit control was the power given to the Reserve Bank to vary the reserve requirements of banks. Prior to the amendment, scheduled banks were required to keep minimum reserves with the Reserve Bank at fixed rates, namely, 2 per cent against time liabilities and 5 per cent against demand liabilities. The amending Act enables the Bank to vary the ratio from 2 per cent to 8 per cent in respect of time liabilities and from 5 per cent to 20 per cent in regard to demand liabilities. The Bank is also empowered to require scheduled banks to maintain with it additional cash reserves, computed with reference to the additions to deposit liabilities accruing from any specified date, at a rate not exceeding 100 per cent of the addition, subject to the over-all limit of 20 per cent of demand and 8 per cent of time liabilities.

3. THE RESERVE BANK AND AGRICULTURAL FINANCE

Functions of the Agricultural Credit Dept.

The Reserve Bank of India was authorised by Section 54 of the Act to create a special Agriculture Credit Department. The functions of this department are: (1) To maintain an expert staff to study all questions of agricultural credit and to be available for consultation by the Government of India,

State Governments, Provincial Co-operative Banks and other banks, and (2) to co-ordinate the operations of the Bank in connection with agricultural credit and its relations with provincial co-operative banks and any other banks and organisations engaged in the business of agricultural credit.[1]

Provisions of the Reserve Bank Act relating to agricultural finance.

There are provisions of the Reserve Bank Act in relation to agricultural finance. The financial accommodation which the Reserve Bank has been authorised to grant covers the following cases:

1. Loans and advances against Government paper for 90 days to provincial co-operative banks and through them to co-operative central banks and primary land-mortgage banks.

2. Similar loans and advances to provincial co-opertive banks and central land-mortgage banks declared to be provincial co-operative banks and through them to co-operative central banks and primary land-mortgage banks, against approved debentures of recognised land-mortgage banks, which are declared trustee securities and which are readily marketable.

3. Advances to provincial co-operative banks for 90 days against promissory notes of central co-operative banks and drawn for financing seasonal agricultural operations, or rediscount of such promissory notes maturing within 15 months.

4. Loans for periods not exceeding 90 days to provincial co-operative banks against promissory notes of approved co-perative marketing or warehousing societies endorsed by provincial co-operative banks and drawn for the marketing of crops, or rediscount of such promissory notes maturing within 15 months, or loans and advances on the promissory notes of provincial co-operative banks supported by warehouse receipts, or pledge of goods against which a cash credit or overdraft has been granted by the provincial co-operative bank to marketing or warehousing societies.

5. Medium-term credit to State Co-operative Banks for agricultural purposes for periods ranging more than 15 months but not exceeding 5 years, subject to Government guarantee of such advances. A limit of Rs. 5 crores has been fixed in respect of the total of such advances by the Reserve Bank.

[1] S. K. Basu, *Recent Bankikng Developments* (3rd ed., pp. 100-101).

In explaining the part the Reserve Bank can take in the provision of agricultural finance, the Bank in one of its Statutory Reports emphasised its character as a bankers' bank in emergency and not their ordinary financing agency. The Reserve Bank thinks it impossible for it to lend to agriculturists direct or to advance large sums to co-operative banks or indigenous bankers for re-lending them to the cultivators as a matter of course. Nor does it think that it can take the place of the Government in this connection.

Principles on which the Bank furnishes agricultural finance.

While the Reserve Bank was prepared to deal with provincial co-operative banks, it laid down certain conditions for the grant of advances. The conditions were: (1) The Reserve Bank must have the right to inspect the banks approved for financial assistance; (2) such banks must furnish periodically financial statements in certain forms; (3) they will have to maintain with the Reserve Bank minimum balances, the amounts of which have to be prescribed from time to time; and (4) the funds advanced must be repaid within the time-limit allowed by the Act, and accommodation should definitely be for helping the banks to tide over a temporary shortage of funds.

The position taken up by the Reserve Bank of India was based upon the orthodox conception of the functions of a central bank. But there grew up a strong feeling in the country that the provisions of the Act in relation to agricultural finance were entirely inadequate. The conditions laid down by the Bank for making advances to provincial co-operative banks appeared to be unnecessarily stringent. The Co-operative Associations made insistent demands, from time to time, for extending the provisions of the Act in this respect.[1] It was suggested in some quarters that cash-credit facilities should be granted to provincial banks. As a matter of fact, the Reserve Bank could not contribute much to the provision of long-term rural credit. But there was a widespread feeling in the country that the Reserve Bank should invest in the debentures of land-mortgage banks and arrange-

Suggestions for affording greater facilities.

[1] As early as 1935, the Indian Provincial Co-operative Banks' Association urged that the Agricultural Credit Department should not merely be an agency for advice and consultation but should be used as a regular channel for supplying normal agricultural credit to co-operative banks.

ments should be made to enable the Reserve Bank to give long-term agricultural credit.

Position of the money-lender.

In any scheme for effective improvement of agricultural credit, the question of bringing the money-lender within the banking structure is important. The money-lender is the largest supplier of such credit, and if a contact could be established between the money-lender and the money-market it would be of substantial advantage to the agriculturist. But there are great difficulties in the way. The Reserve Bank does not think it possible to have direct relations with the money-lenders, but it is willing to cultivate indirect relations with them through the scheduled banks in certain forms of agricultural finance. If the scheduled banks discount the bills of approved money-lenders drawn for advances to cultivators against produce, the Reserve Bank will be prepared to re-discount such bills at special rates by the grant of rebates to scheduled banks. This concession will enable the scheduled banks to make advances to money-lenders for such purposes at low rates of interest and the money-lenders in their turn will be able to make finance available to the cultivators more freely and more cheaply.

The performance of the Reserve Bank as a research and advisory institution has been promising, but public opinion in India seems to hold the view that its activity as an agency for the provision of seasonal and emergency finance to agriculture has been, on the whole, not very satisfactory. Considering the peculiar conditions of an underdeveloped economy like India's, the Bank should, according to many economists, have broadened the scope of the assistance it renders to the agriculturist.

Steps towards expansion of credit facilities in rural areas were taken by the Government of India, when the Reserve Bank of India Act was amended in 1953 so as to enable the Bank to participate more effectively in financing the medium-term requirement of rural areas. It is possible now for the Bank to make advances for the production and marketing of agricultural commodities as well as their processing preliminary to marketing. The Reserve Bank has also been empowered under the amended Act to provide accommodation to the State Co-operative Banks and State Financial Corporations for

financing the production and marketing activities of cottage and small-scale industries.

4. THE RESERVE BANK AND THE MONEY MARKET

Dual control of currency and credit prior to 1935.

Prior to the foundation of the Reserve Bank of India in 1935, India was one of the few countries where a dual control was exercised over currency and credit. The Government controlled the currency and the credit situation, so far as it was controlled at all, through the Imperial Bank. While in other countries the control of both currency and credit was centralised in and fixed upon a Central Bank, there was in India, as the Hilton Young Commission rightly pointed out, an antiquated division of responsibility in this respect. Divided control meant divided counsel and failure to co-ordinate. With the establishment of the Reserve Bank, the control of both credit and currency was placed in the hands of a single authority.

Instruments of credit control.

The chief instruments of credit control at the disposal of a Central Bank in a country are: (1) credit rationing, (2) moral suasion, (3) the discount rate, and (4) open-market operations. So far as the first weapon is concerned, it is out of the question in India, for the Reserve Bank has not yet attained such a position of strength and responsibility that in rationing credit it may expect to escape from the charge of favouritism. By moral suasion is meant the advice given or request made by the Central Bank to the market. The effectiveness of this instrument obviously depends on the willingness of the market to co-operate with the Central Bank. It is idle to expect any useful result from this particular policy in India unless the Reserve Bank were to attain the position of the Bank of England or the Federal Reserve Banks in the United States. Even in those countries, this method is of limited utility.

Credit rationing.

Moral suasion.

Discount rate.

In the days before World War I the discount rate was regarded to be the most potent instrument of central banking control. In 1914, all the Central Banks relied upon it. Even in 1931, when the Macmillan Committee reported, the bank rate method was visualised as one of the two main methods of control. In recent years, the instrument has lost a good

deal of its potency in the western countries, and in India, it is blunt for all practical purposes.[1]

The ineffectiveness of discount policy in India arises from the fact that the bank rate does not permeate the entire banking system. Before the advent of the Reserve Bank, the bank rate in India meant the rate at which the Imperial Bank was prepared to give demand loans against Government securities. The movements of this rate had more intimate relations with the loan operations and exchange policy of the Government and its balances with the Bank than with the requirements of trade and industry. The money-market was divided into two parts, *viz.*, the European and the Indian (or the *Bazar*) parts. There was no cohesion between these parts of the market and there were frequent differences between the bank rate and the *bazar* rates. The Reserve Bank no doubt supplied the central co-ordinating agency which was hitherto lacking, but matters have not improved. The Reserve Bank is still unable to control the money-market satisfactorily by raising or lowering its discount rate, for this operation does not bring about a similar rise or fall in the market rate. Indigenous banking is not materially affected by the Reserve Bank rate. If one remembers that 90 per cent of Indian banking is in the hands of indigenous bankers, one can form an idea of the predominating influence of this form of banking.

Open-market operations.

Traditional method of Central Bank control—the open-market policy—is usually regarded as supplementary to the bank-rate policy. In the conditions obtaining at present, it will be difficult for the Reserve Bank to carry on operations on a drastic scale and coerce the money-market into submission.

Linking of indigenous bankers to the Reserve Bank.

Among the obstacles in the way of credit control, the existence of indigenous bankers outside the organised banking system is found to be one of the most serious. Hence the question of linking indigenous banking with the organised banking system is of the utmost importance. The Reserve Bank, in one of its Statutory Reports, stressed the difficulties of linking indigenous bankers directly to it and stipulated certain conditions under which it would be prepared to admit their direct access to it. These conditions included the confinement of their business to banking proper by developing

[1] J. C. Sinha, *Indian Currency in the Last Decade*, p. 160.

deposit business and shedding trading and other forms of non-banking business, the maintenance of proper books of account, the right of the Reserve Bank to inspect the accounts, the filing with the Bank of periodical statements prescribed for scheduled banks, and the opening of accounts with the Bank within five years of their registration as private bankers in its books.

Solution—development of a bill market.

The ultimate solution must lie in the development of an open bill market in which first-class bills are freely negotiated. An important characteristic of the Indian money-market is the scarcity of commercial bills of exchange which form a much smaller proportion of the assets of the banks here than in the West. In the absence of a proper bill market rediscounting facilities are very inadequate. If such a market could be developed, it would be possible for the Reserve Bank to extend its open-market operations to trade bills in addition to Govrnment securities. This would give the indigenous bankers ultimately the close and direct relationship which they desire without subjecting them to undue restrictions and formalities.[1]

But there are several obstacles to the development of a bill market, the greatest being the heavy stamp duty. The abolition of the stamp duty was recommended by the Hilton Young Commission as well as the Central Banking Enquiry Committee. It was high time that it was abolished. With the fall in the rate of interest the incidence of the duty has become a heavy burden. Definite steps should also be taken to induce the bankers to have greater recourse to commercial bills. A useful suggestion was made by Sir Basil Blackett during his term of office as Finance Member, namely, the drawing of export bills in rupees. The conditions in Sir Basil's time might not have been favourable to the development of this method of financing export trade, but the situation has changed considerably since then. Efforts should be made now to develop this method. The feasibility of introducing rupee bills to finance the Indian import trade should also be carefully considered.

[1] *Statutory Report of the Reserve Bank of India (Agricultural Credit Supplement)*, 1937.

The use of bills might be further extended if warehouses and godowns were established under proper management in different parts of India. Finance bills drawn at present by shroffs and merchants would then be replaced by genuine trade bills accompanied by documents, and these are sure to be preferred by the banks.

With the increasing use of commercial bills and the development of an active discount market, with the willing co-operation of the scheduled banks, with the Reserve Bank operating fully as a bankers' bank and not as a rival institution, with the indigenous bankers brought within the fold of organised banking, it will not be difficult for the Reserve Bank to achieve a unified control of currency and credit.

5. BILL MARKET IN INDIA

A New Scheme evolved in January, 1953

The question of creating a bill market in this country was under the consideration of the Reserve Bank for some time past and a scheme was evolved in January, 1952 in consultation with several of the representative bankers in Bombay and Calcutta. Under this scheme, advances are now granted by the Reserve Bank to scheduled banks in the form of demand loans on the execution by them of demand promissory notes supported by usance promissory notes of their constituents. For this purpose, it is necessary for the scheduled banks to convert the demand promissory notes obtained by them from their constituents in respect of loans, overdrafts and cash credits into usance promissory notes maturing within 90 days. Banks normally allow frequent part payments in case of loans, cash credits and overdrafts, and frequent withdrawals are also permissible in the case of cash credits and overdrafts. The loan, cash credit or overdraft accounts are therefore split up into two parts,—one part is covered by the demand promissory notes to permit of further withdrawals or payments being made; and (2) the other part which would represent the minimum requirements of the borrower during the next three months are converted into usance promissory notes for 90 days. These usance bills are lodged with the Reserve Bank for accommodation. This scheme has been evolved under Section 17 (4) (*c*) of the Reserve Bank of India Act. The

provisions of this Section require that the bills of exchange or promissory notes should have arisen out of a *bona fide* commercial or trade transactions. Each eligible bill must bear two or more good signatures, one of which shall be that of a scheduled bank. As the Reserve Bank does not undertake to present the bills offered as security for payment, the scheduled banks are required to make payments to the Reserve Bank on or before the date of maturity of each bill.

In order to encourage the rapid development of a bill market in India, the Reserve Bank has decided to make advances to banks for the present at ½ per cent below the Bank rate. As a further inducement to banks to create a bill market, it has decided that half the cost of the stamp duty incurred in converting demand bills into time bills shall be borne by the Reserve Bank. Since January, 1952 scheduled banks in India have been borrowing from the Reserve Bank large sums annually under the bill market scheme.[1]

Inducements by the Reserve Bank.

6. THE STATE BANK OF INDIA

Imperial Bank transformed into State Bank in 1955.

On the recommendation of the Committee of Direction of the Rural Credit Survey appointed by the Reserve Bank of India in August, 1951, the Finance Minister announced on December 20, 1954, Government's decision to assume effective control over the Imperial Bank of India. Accordingly the State Bank of India Bill was introduced in the *Lok Sabha* on April 16, 1955, and after being passed by both Houses of Parliament it received the President's assent on May 8, 1955.

The main provisions of the Act are as follows:

Constitution.

The State Bank of India will have, which replaces the Imperial Bank of India, an authorised capital of Rs. 20 crores and an issued capital of Rs. 5·625 crores. The Reserve Bank of India shall hold 55 per cent of the issued share capital and may transfer the balance of 45 per cent of the State Bank shares to private shareholders, preference being given to the existing shareholders of the Imperial Bank of India. The erstwhile shareholders would be paid compensation at the rate of Rs. 1,765-10-0 for every fully paid-up share and at Rs. 431-12-4 for every partly-paid share. The compensation will be paid

[1] N. K. Roy, "*Indian Banking and Money Market*", p. 198.

in Central Government securities and, if a shareholder so desires, in the form of State Bank of India shares. In the case of shareholders whose names stood registered in the books of the Imperial Bank of India as on December 19, 1954, compensation upto the amount of Rs. 10,000 will be paid in cash if they apply for it.

The management of the Bank will vest in a Central Board consisting of (1) a Chairman and a Vice-Chairman to be appointed by the Central Government in consultation with the Reserve Bank, (2) not more than two Managing Directors, if any, to be appointed by the Central Board with the approval of the Central Government, (3) six directors to be elected by the shareholders, other than the Reserve Bank, whose names are entered in the various branch registers, (4) eight directors to be nominated by the Central Government in consultation with the Reserve Bank to represent territorial and economic interests, (5) one director to be nominated by the Central Government and (6) one director to be nominated by the Reserve Bank.

Functions. The State Bank will continue to provide credit to industry, trade and commerce as the Imperial Bank used to do; in addition, it is expected to assist banking development on more vigorous lines. It will open about 400 branches within a period of five years. It will provide considerably larger remittance facilities and attempt to mobilise available rural savings. Later, with an expanded organisation and with development in warehousing and marketing, the State Bank is expected to be a powerful agency for enlarging the supply of rural credit. The Reserve Bank will continue to provide assistance for the extension of rural credit through the apex co-operative banks, as at present.

The State Bank shall, if so required by the Reserve Bank, act as agent of the Reserve Bank at all places in India where it has a branch and where there is no branch of the Banking Department of the Reserve Bank. With the sanction of the Central Government, the State Bank may also enter into negotiations for acquiring the business, including the assets and liabilities, of any banking institution.

The State Bank of India came into being on July 1, 1955 with the entire undertaking of the Imperial Bank of India including all its assets.

7. REGULATION OF BANKING

Absence of any regulation before 1936.

Prior to the amendment of the Indian Companies Act in 1936, there was hardly any regulation of banking in India. Joint-stock banks in the country were registered under the Indian Companies Act of 1913 and were governed by its general regulations. It was only in a few matters that the Act distinguished between banks and other companies and contained half a dozen special regulations applicable to banks only. Banking institutions stood outside the purview of the Indian Companies Act. In the absence of any statutory control, banking activity was frequently directed into unwanted channels and abuses crept into banking practice with the result that the country was often littered with a crop of bank failures involving the utter ruin of thousands of depositors.

Central Banking Enquiry Committee's recommendation for special Bank Act.

There was a widespread feeling for a long time in the country that there should be some legislative control over the operations of banking institutions. The point was made with great emphasis before the Indian Central Banking Enquiry Committee by a large number of witnesses. The Committee, though not in favour of elaborate banking regulations and restrictions, were of the opinion that the then existing provisions in the Companies Act governing banking companies were inadequate and recognised the desirability of placing on the Statute-Book a special Bank Act for regulating certain aspects of banking activity. Accordingly, they made in their Report a number of suggestions for the regulation of banking in India.[1]

The 'Foreign Experts'' opposition to a Bank Act.

The 'Foreign Experts' who were invited by the Government to assist the deliberations of the Committee were not in favour of a special Bank Act. Neither did they accept in their

[1] The licensing of banks to prevent over-extension of banking, the prohibition of organisation of banking on the managing agency system, the prescription of a statutory minimum capital to ensure adequate capitalisation, the building up of a reserve fund equal to the paid-up capital, the prohibition of loans on the bank's own stock, and the protection of a bank from malicious attacks by designing persons were some of their more important recommendations. *Report*, Ch. XXV.

entirety the recommendations of the Committee. The introduction of a special Banking Act would, in their opinion, hamper banking activities in the country and was calculated to do more harm than good. The objective of banking regulation, according to them, could be better attained by the amendment and amplification of the Indian Companies Act. But it was pointed out that the method of regulation by means of a special Bank Act as proposed by the Banking Committee had been adopted in recent years in a large number of countries, including those of some of the 'Foreign Experts' themselves.

Indian Companies Amendment Act 1936.

The Government of India, however, rejected this recommendation of the Banking Committee and, agreeing with the 'Foreign Experts', added a new chapteer relating to Banking Companies in the Company Law when the Indian Companies Act was amended in 1936. The special provisions relating to banks in the amended Act comprised: (1) A banking company was defined as a company which carried on as its principal business the accepting of deposits of money on current account or otherwise subject to withdrawal by cheque, draft, or order. (2) The activities of all banking companies were restricted to ordinary banking business. (3) The future employment of managing agents for the management of a banking company was prohibited. (4) Adequate working capital before business commenced was ensured by providing a statutory minimum capital of Rs. 50,000. (5) Provisions were made for a substantial reserve fund by requiring every banking company to transfer to the reserve fund not less than 20 per cent of its annual declared profits before any dividend was declared until the reserve fund became equal to the paid-up capital. (6) Adequate cash reserve was provided for by requiring every banking company, other than a scheduled bank, to maintain a cash reserve equivalent to 1½ per cent of its time liabilities and 5 per cent of its demand liabilities.

Inadequacy of the provisions in the Act.

Good laws do not necessarily produce good banking.

A careful study of the new provisions in the amended Companies Act would make it clear that they fell far short of the requirements. Not even the moderate recommendations of the Central Banking Enquiry Committee were incorporated. It must be pointed out, however, that too much emphasis must not be put upon legislation as a means for ensuring a good

banking system. As Hartley Withers pointed out long ago, 'it is good bankers, but not good laws, which produce good banking.' The admittedly successful banking system of England did not owe its sound development to an elaborate banking law. It is also true that banking business is largely a matter of discretion, and hard and fast rules often fetter the discretion of bank directors and hamper banking activities. But at the same time it must be recognised that certain matters should be provided for by law which would ensure a minimum standard of efficiency and integrity in the conduct of the business of banks.

8. THE BANKING COMPANIES ACT, 1949

The popular demand for a separate Banking Act gathered considerable force after the failure in 1938 of some South Indian banks. But it was not until 1949 that a comprehensive Banking Companies Act was passed. History.

The main features of the Act are as follows: Main features.

(1) Banking is defined as the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise. Definition of Banking.

(2) Prescription of minimum capital standards.—In the case of a banking company incorporated elsewhere than in a province of India, the aggregate value of its paid-up-capital and reserves shall not be less than 15 lakhs of rupees, and if it has a place or places of business in the city of Bombay or Calcutta or both, 20 lakhs of rupees. Such a banking company of non-Indian origin will be considered to have fulfilled the conditions laid down in the Act only when it has deposited with the Reserve Bank in cash or approved securities the minimum required. In the case of any other banking company, that is, a company which is registered in India, the aggregate value of its paid-up capital and reserves shall not be less than: Minimum capital.

(*a*) five lakhs of rupees, if it has places of business in more than one province, and ten lakhs, if any such place of business is situated in Bombay City or Calcutta or both ;

(*b*) if it has all its places of business in one province, none of which is situated in Bombay City or Calcutta, one lakh of

rupees in respect of its principal place of business *plus* ten thousand rupees in respect of each of its other place of business situated in the same district in which it has its principal place of business *plus* twenty-five thousand rupees in respect of each place of business situated elsewhere in the province otherwise than in the same district, but in no case more than an aggregate value of five lakhs of rupees ;

(*c*) if it has only one place of business, not more than fifty thousand rupees ;

(*d*) if it has all its places of business in one province, one or more of which is or are situated in the City of Bombay or Calcutta, five lakhs of rupees, *plus* twenty-five thousand rupees in respect of each place of business outside Bombay City or Calcutta ; but in no case more than an aggregate value of ten lakhs of rupees.[1]

Categories of business.

(3) The forms of business in which banking companies may engage are: "underwriting, managing, participating in and carrying out of any issue of shares, stock, debentures of any company, corporation or association."

Prohibition of business.

(4) Prohibition of trading with a view to eliminating non-banking risks.—No banking company is directly or indirectly to deal in the buying or selling or bartering of goods, except in connection with the realisation of security given to or held by it, or engage in any trade or buy or sell or barter goods for others.

Licensing.

(5) No company is to carry on banking business in any province of India unless it holds a licence granted by the Reserve Bank for this purpose. Before granting any such licence the Reserve Bank may require to be satisfied that the company is in a position to pay its depositors in full as their claims accrue and that the affairs of the company are not being conducted in a manner detrimental to the interests of the depositors. The Reserve Bank may cancel the licence if the conditions cease to be fulfilled.

[1] One of the chief defects of the Indian banking system is the weak and vulnerable capital structure of the vast majority of banks. Another defect is the tendency of small banks with low capital to open branches in all large towns which have already sufficient banking facilities. These defects are sought to be remedied by these provisions.

(6) The Reserve Bank, at any time, may, and on being directed to do so by the Central Government, is to cause an inspection to be made of any banking company and its books and accounts. On obtaining a report from the Reserve Bank, the Central Government may, after giving an opportunity to the banking company to make a representation, prohibit it from receiving fresh deposits or direct the Reserve Bank to apply for its winding-up. Banking companies have to submit their monthly returns to the Reserve Bank which may also call for information every half-year regarding the classification of advances and investments among trade, industry and commerce.

Inspection and control.

(7) A non-scheduled bank has been required to maintain a cash reserve in cash with itself or in the form of a balance with the Reserve Bank a sum equivalent to 2 per cent of their time liabilities and 5 per cent of their demand liabilities and have thus been brought into line with the scheduled banks in this respect. Apart from this cash reserve, both scheduled and non-scheduled banks are to maintain in cash, gold or approved securities an amount not less than 20 per cent of their time and demand liabilities. Such a statutory provision of a ratio between liquid assets (including or excluding cash) and deposits, apart from the ratio of cash to deposits, is to be witnessed in various countries of the world.

Prescription of a cash as well as a liquidity ratio.

The Reserve Bank may determine the policy in relation to advances to be followed by banking companies, if it considers it expedient in the public interest. It may give directions to banking companies as to the purposes for which advances may or may not be made, the margins to be maintained in respect of secured advances and the rates of interest to be charged on advances. The Reserve Bank has also been empowered to include a bank within the second schedule or de-schedule it. Without its previous sanction no amalgamation can take place. It may also caution banking companies against entering into any particular transatction and generally give advice to them.

Comment. Powers of the Reserve Bank.

The duties and responsibilities thrown upon the Bank are wide, varied and formidable. Indeed, the burden a single institution is being called upon to bear in policy-making and day-to-day administration of the country's banking system is very large. It is feared that its experience in this difficult field is

much too short and inadequate. But a redeeming feature is that the Bank will henceforth be able to extend its assistance to both scheduled and non-scheduled banks in their hours of distress and prevent a recurrence of the crisis that overtook banks in recent years. It is calculated in this way to improve the liquidity of the Indian banks.

The Banking Companies (Amendment) Act, 1950.

In 1950, the Banking Companies (Amendment) Act, was passed. The main provisions of this Amending Act related to the procedure for amalgamation of banking companies. A new Section (44A) was inserted which provided that no banking company should be amalgamated with another banking company unless a scheme containing the terms of such amalgamation had been placed in draft before the share-holders of each of these banking companies concerned separately and approved by a resolution representing two-thirds in value of the shareholders of each of the said companies present either in person or by proxy at a meeting called for the purpose.

This amendment facilitated the recent amalgamation of four well-known banks in Bengal.

9. THE RUPEE-STERLING RATIO

As we have already seen the question of the rupee-sterling ratio was the subject matter of widespread controversy in the country for a long time. The Government accepted the recommendations of the Hilton Young Commission and linked the rupee to 1*s.* 6*d.* By the Currency Act of 1927 was established a gold bullion-*cum*-sterling exchange standard in India. Government had hoped to silence all controversy by this decision, but the voice of protest did not die down.

The Currency Act of 1927.

On the 21st September, 1931, Great Britain abandoned the Gold Standard. On the 24th September, the Government of India announced its decision to link the rupee to sterling at the 1*s.* 6*d.* rate. Thus, India again passed on to the Sterling Exchange Standard which had been condemned as most unsuitable for India by the Babington-Smith Committee as well as the Hilton Young Commission.

Great Britain off gold and linking of rupee to sterling at 1s. 6d.

The step taken by the Government raised a storm of protest in the country. A large section of Indian economists and businessmen, though not advocating a 'free' rupee, was defi-

Strong criticism of Government policy.

nitely of the opinion that the rupee was over-valued at the rate of 1*s.* 6*d.* The gold exports, the declining merchandise balances, and the persistent fall in prices constituted, according to them, strong evidence of the overvaluation of the rupee. There arose an insistent demand for immediate devaluation.

Defence of Government policy.

But the Government adhered to their decision. It was pointed out on their behalf that they had nearly £32 millions of sterling obligations to meet every year and a 'free' or devalued rupee would be a source of great embarrassment in the framing of their budgets. Of all the alternatives open to them in 1931, it was stated, they had chosen the best. So far as the gold export, the reduced merchandise balances, and the declining prices were concerned, the exchange-rate had very little to do with them; they were due to other causes.

Decline of the export trade and the sagging of the rupee in 1937.

With the inauguration of the Reserve Bank in 1935 an element of strength was imparted to Indian finance. The exchange position was free from any serious difficulty and things moved fairly smoothly for some time. But troubles began to arise early in 1938. The balance of trade in merchandise in favour of India and Burma declined to a substantial extent. During the first three months of 1938 the situation was particularly bad. The exports of precious metals also declined considerably in this period. The cumulative effect of this decline in the exports of merchandise and of gold soon made itself felt on the course of the rupee-sterling exchange. On the 13th of April, 1938, the Reserve Bank for the first time after several years accepted tenders of sterling to the amount of £10,000 at 1*s.* $6\frac{3}{32}$*d.* instead of at 1*s.* $6\frac{1}{8}$*d.* This was immediately followed by a decline in the market rates, and though the Reserve Bank subsequently suspended purchases by tender altogether, the rates continued to fall and reached the statutory lower point of 1*s.* $5\frac{49}{64}$*d.* in the first week of June. In their efforts to maintain the rate of exchange the Reserve Bank was obliged to utilise freely the sterling resources at its disposal. The depletion of the sterling assets of the Issue Department amounted to more than 19 crores of rupees during the period from March 16 to December 18, 1938.

There was widespread resentment in the country against this Government policy which was leading to the depletion of the foreign balances and even to contraction of currency. It was

Steps taken by Government to maintain exchange.

pointed out that the notes in circulation which stood on 30th April, 1937, at Rs. 192·6 crores came down by 1st July, 1938, to Rs. 177·31 crores. The rupee coin at the same time was returning to the Reserve Bank at the rate of more than 5 crores a year. This was regarded as an evidence of a deliberate policy of contraction which the Government were pursuing in order to maintain what had always been described by them as a 'sound' rupee. The commercial community was considerably alarmed, for a continuance of this process could not but have a deflationary effect with all the attendant evils of monetary stringency, falling prices, and commercial and economic maladjustment. A revision of the exchange ratio was urgently demanded by a large section of Indian economists and publicists. The question of the ratio came to engage the attention of even the Working Committee of the Congress which passed a Resolution in December, 1938, urging upon the Governor-General in Council the necessity of taking immediate steps to lower this rate to 1*s.* 4*d.* But on the 17th December, 1938, the Government of India issued a communique on the Congress resolution in which they declined to take any step to lower the then existing exchange value of the rupee. The broad fact remained that there was a definite tendency for the Indian export trade to decline. Instead of frittering away the sterling resources of the Reserve Bank, they should have made some effort to stimulate the exports of the country by concluding bilateral treaties and by improving the quality of India's agricultural goods. Sir Basil Blackett, one time Finance Member to the Government of India, admitted the "risk" of "tying the rupee to the chariot wheels" of the Bank of England.

Demand for a revision of the exchange ratio.

As the rupee has now been delinked from the sterling and acquired an independent position, there is no question of a rupee-sterling ratio.

10. DEVALUATION

India's Finance Minister, Dr. Mathai, in his Budget speech of February 28, 1949 appeared for the first time to be seriously concerned about India's balance of payments position *vis-a-vis* the dollar and hard currency areas. India's net deficit in her

current transaction with these areas amounted to Rs. 4·8 crores in 1946, Rs. 85·8 crores in 1947 and Rs. 49·6 crores in 1948. Although the deficit in this respect was smaller in 1948 than in 1947, India was faced with a serious problem of international payments owing to the definite limits imposed by the U. K. on the convertibility of sterling.

It was on the night of September 18, 1949 that Sir Stafford Cripps, then Finance Minister of the Government of England, made the historic announcement over the radio, of the devaluation of the pound sterling. It was a signal for devaluation of their currencies by other countries. The Government of India's announcement that the rupee had been devalued in terms of gold (or U. S. dollar) to the same extent as the British sterling followed closely on the heels of the Cripps broadcast. The par value of the rupee in terms of gold was reduced from 0·268601 grams of pure gold to 0·186210 grams. In terms of U. S. dollars it meant a reduction from 3·30852 rupees to 4·76190 rupees. The exchange rate between the rupee and the pound remained unchanged at 1*s*. 6*d*. a rupee.

Finance Ministry Communique.

After a discussion of the whole economic situation a Finance Ministry Communique, dated September 19, 1949, stated that "There was no alternative for India other than to follow the sterling area countries and devalue the rupee as a defensive measure."

But the situation became complicated and confused after Pakistan's refusal to devalue her rupee.

Effects of devaluation.

After the devaluation of the rupee in September, 1949, there was some increase in exports ,particularly to the dollar and hard currency areas.[1] With September, 1949, as the base, the

[1] *Hard and Soft Currency areas*:

For purposes of import into and export from India, the list of hard and soft currency countries was revised and is now as follows:—

A. *Dollar Areas*:

U.S.A. and any territory under sovereignty of the U.S.A., Canada (including Newfoundland).

Other American Account countries, consisting of Philippine Islands, Bolivia, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Salvador and Venezuela and Liberia.

B. *Hard Currency Areas*:

Argentina, Switzerland and Japan.

C. *Medium Currency Areas*:

Portugal and her possessions (excluding Portuguese India).

D. *Soft Currency Areas*:

index of India's exports rose to 168,208 and 111 respectively for dollar, hard currency and soft currency areas in February, 1950. The value of exports in terms of rupees rose from Rs. 6,75 lakhs, Rs. 7,83 lakhs and Rs. 25,61 lakhs to Rs. 11,33 lakhs, Rs. 16,32 lakhs and Rs. 28,43 lakhs respectively for these three areas, during the same period. Sir Chintaman Deshmukh stated in Parliament in August, 1950, that India's balance of trade improved by Rs. 172 crores during the nine months following devaluation from October, 1949 to June, 1950. Official circles considered that devaluation might be regarded as the main factor in the improvement of exports. The Government of India contended that their devaluation policy had been justified by developments in export trade.[1]

But Sir C. D. Deshmukh admitted that only Rs. 74 crores, out of the Rs. 172 crores of the improvement in the balance of trade, could be attributed to increase in exports. The increase in small exports was partly due to the vigorous export drive on the part of the Government. Besides, the increase in exports that took place related chiefly to cotton textiles and tea with regard to soft currency areas where devaluation certainly did not provide the stimulus. Finally, the increase in the value of exports in terms of rupees about which much was said was misleading. What was really significant was an increase in foreign exchange, particularly dollar and hard currency, earnings. It was obvious that even if the dollar amount remained unchanged, there would have been an increase in rupee value due to its depreciation. The demand for some of India's exports was clearly inelastic and became more so in the context of recent developments in international politics. There was a considerable increase in the U.S.A.'s demand for strategic Indian minerals for stock-piling purposes. The devaluation of the rupee now stood in the way of India's increasing her earnings of dollars.

Further, as a result of devaluation, the cost of living increased. Capital equipment and borrowing from dollar areas became

All other countries, except Pakistan and the Union of South Africa.—*Indian Trade Bulletin*.

[1] Dr. Mathai himself did not appear to have been fully convinced of the beneficial effects of devaluation. On October 5, 1949, he frankly stated in Parliament that he had to act "not on conviction born of logic necessarily, but so to speak, by the compulsion of events."

much dearer and were impeding India's programme of economic reconstruction and development.

It is worthy of note that Dr. Mathai, some time after his relinquishment of the office of Finance Minister, observered that devaluation had proved injurious to the interests of India and urged that it should be revised.

11. DECIMAL COINAGE

Adoption of the decimal system of coinage.

With a view to adopting the decimal system of coinage, a Bill to amend the Indian Coinage Act, 1906 was introduced in the Lok Sabha on May 7, 1955. The Bill was passed on July 29, 1955 and received the President's assent on September 17, 1955. This Act came into force from April 1, 1957. As from that date, the rupee coin was divided into 100 equal units and the unit coin was designated as naya paisa. Thus 100 naya paisa make one rupee, the value of which remains the same as at present. Under section 6 of the Indian Coinage Act, 1906, the Government of India have given the details regarding the denominations, dimensions, designs and metal composition of the new series of coins. The new series have the following units: 1 naya paisa, 2 naya paisa, 5 naya paisa, 10 naya paisa, 25 naya paisa, 50 naya paisa and 100 naya paisa. In the new series, the present 2 annas, 1 anna, half-anna and single pice coins have exact equivalents with the new coins, but their places are taken by 10 naya paisa, 5 naya paisa, 2 naya paisa and 1 naya paisa, respectively. The 100, 50 and 25 naya paisa coins are minted in pure nickel; 10, 5 and 2 naya paisa coins in cupro-nickel alloy (75% copper and 25% nickel), and the one naya paisa coin in bronze. The obverse side of all the new coins have the design of the lion capital of the Asoka Pillar with the terms 'Bharat', in Hindi and 'India' in English inscribed on them. The reverse side of all the new coins indicate the year in which the coins are produced and their value in naya paisa specified in international numerals. Further, on each coin, the number of such coins required to make one rupee is indicated.

The current coins will continue to be legal tender for about three years after the introduction of the new coins but will be gradually withdrawn from circulation.

CHAPTER XXVII

INTERNATIONAL MONETARY PROBLEMS

1. INTERNATIONAL MONETARY FUND

IT was by virtue of an Ordinance promulgated by the Viceroy on December 24, 1945 that India ratified the Bretton Woods Agreement and became an original member of the International Monetary Fund and the International Bank for Reconstruction and Development. In October, 1946, the Central Legislature approved India's continued membership of the Fund and the Bank. The amount of India's subscription to the Fund, which was also her quota, namely, 400 million dollars, was to be paid by March 1, 1947. This had to be paid partly in gold and partly in Indian 'currency', *i.e.,* in rupees and non-interest-bearing, non-negotiable promissory notes convertible on demand into rupees. Under the Rules of the Fund, the gold subscription had either to be 25 per cent. of a country's quota or 10 per cent. of its net official holdings of gold, and U.S. dollars, whichever was less. As 10 per cent. of India's gold and dollar holdings was the lower figure, gold of this value was transferred to the Fund. Of the subscription to be paid in 'currency', a certain amount was credited to the Fund's account in the books of the Reserve Bank of India and the balance was paid in the form of promissory notes of the type mentioned above. On January 31, 1954, India's subscription payments were 785,327,246 fine ounces in gold, of which the dollar equivalent was \$27·53 million and the balance was paid in rupees, for which the dollar equivalent was \$372·47 million.

India, an original member of I.M.F.

India, being one of the five largest quota holders (Russia having chosen to stand aloof) was appointed an Executive Director on the Fund. She has 4,250 votes which amount to 4·82 per cent. of the total. The greatest advantage that India derived from the membership of the Fund is the assistance she has obtained from it to satisfy her need for dollars. Partly on account of imports of capital goods and foodstuffs and partly on the invisible trade account, India was running a large deficit with the dollar area. She was able to purchase dollars from the Fund from time to

Purchase of dollars.

time to meet a portion of this deficit. It was in March, 1948 that she applied to the Fund for the first time for U.S. dollars. The Fund assented to her purchase of $28 million. Ever since she has been making continuous purchases of dollars from the Fund. She bought $100 million in 1949, which meant that she exhausted her limit of credit for the year, for under the rules of the Fund, no member country is permitted to draw on its limit of credit beyond 25 per cent. of its quota during any one year.

Mission to India.

The rate at which India used up her limit of credit with the Fund exercised the minds not only of the Government of India but also of the authorities of the Fund. A Mission of the Fund visited India to study the different aspects of India's economy as well as the general economic structure as a whole and had satisfactory talks with the Central Government in New Delhi on the subject. While it was recognised that India's case was peculiar, due to dislocation of her economy on account of 'Partition' and that her adverse balance of payments was principally caused by heavy food imports, it was emphasised by Mr. Parsons, leader of the Fund mission, that the Fund's function was to extend its assistance to a country during the period in which it was taking steps to correct a disequilibrium in its balance of payments but not for meeting regular deficits on trade account.

The Reserve Bank of India and I.M.F.

India's membership of the Fund has not only brought advantages but has also imposed upon her a number of obligations. Such obligations called for consequential amendments to the Reserve Bank of India Act, 1934.

Reserve Bank provisions amended.

One of the principal objectives of the Fund is the establishment of multilateralism in international trade. The laws and practices of the Reserve Bank have to be suitably amended so that the Bank can maintain multilaterality of exchange transactions between the rupee and the currencies of other member countries. The holdings of foreign exchange reserve in terms of sterling only, the purchase and sale of sterling only, the fixation of the external value of the rupee in terms of sterling only—all these provisions in the Act of 1934 stood in the way of multilaterality and were clearly discriminatory in favour of sterling. Sections 17, 40, 41 and 33, in particular, called for suitable amendments.

Section 40 and 41 made sterling the sole determinant of the external value of the Indian rupee. Under its Articles of Agreement, member countries had to express the par values of their currencies in terms of gold ; and the rates which such par values bore to each other were to determine the exchange rates. When India was called upon to declare the par value of the rupee, the sections had to be repealed and replaced by a new section by the Reserve Bank of India (Second Amendment) Act, 1947. Under the amendments the Bank was put under an obligation to buy and sell, not sterling simply, but foreign exchange at rates determined by the Central Government. Thus the rupee was delinked from sterling and emerged as an independent currency.[1] It is now officially linked to gold and dollar. It is valued at 8·47512 grams of fine gold at present.

Rupee de-linked from sterling.

Under Sec. 33 of the Reserve Bank Act, a portion of the assets of the Issue Department could be held in one kind of foreign currency, *viz.*, sterling. But for facilitating multilateral exchange transactions it is essential that the monetary reserves of the Central Bank should be composed of various sorts of foreign currencies. Section 33 was amended by the Reserve Bank of India (Transfer to Public Ownership) Act, 1948, so that "foreign securities" was substituted for "Sterling Securities" in sub-sections (1) and (2). The effect is to permit the Reserve Bank to include in its legal reserve hard currencies in addition to sterling. Sub-section 3 (*a*) and 3 (*b*) of Section 17 was also amended by the same Act so that the Reserve Bank might buy from and sell to scheduled banks "foreign exchange" generally in place of sterling alone, and buy, sell and rediscount bills of exchange drawn "on any country outside India which is a member of the I.M.F." and not simply on any place in the United Kingdom. In Sec. 18, sub-section (2), "foreign exchange" has similarly been substituted for sterling.

Assets to be held in "foreign securities".

All these amendments were in consonance with the obligations India had undertaken as a member of the International Monetary Fund.

2. THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The purposes of the International Bank, as set out in the Articles of Agreement, are to help in the reconstruction and

[1] S. K. Basu, *Recent Banking Developments* (2nd Ed.), pp. 371-73.

development of member countries by facilitating the investment of capital for production purposes, including the restoration of war-time economies, the reconversion of production facilities to peace-time needs and the encouragement of the development of production resources in relation to under-developed countries. The Bank can make (1) direct loans out of its own funds and (2) direct loans out of funds borrowed by it. It can also guarantee loans made by private investors. The authorised capital of the Bank has been fixed at 10,000 million dollars. This capital stock, however, may be increased with the approval of three-fourths of the voting power. The subscription assigned to each individual member corresponds to its quota in the Fund.

India's shares amount to 4,000, valued at 400 million dollars. Of this amount she has paid 8 million in U. S. dollars, $720,383 in rupees, $71,279,617 in non-interest-bearing non-negotiable demand notes. There is a further amount of $320 million subject to call by the Bank only when required to meet the obligations of the Bank created by borrowing or guaranteeing loans. She possesses 4,250 votes.

Loans:

1. Purchase of locomotives.

On August 18, 1949, India received a loan from the International Bank amounting to $34 million for financing the purchase of locomotives, boilers and locomotive parts. The loan was for a period of 15 years and the rate of in terest to be paid was 3 per cent. *plus* the usual commission of 1 per cent.

2. Tractors for reclamation of land.

The second loan was granted by the Bank on 29th September, 1949. The amount was $10 million. It was repayable in 7 years and the rate of interest to be paid was 3 per cent. *plus* a commission of 1 per cent. The object was reclaiming by tractors 3 million acres of weed-infested land in Madhya Pradesh and Bhopal.

3. Bokaro Thermal Power Plant.

A third loan of 18·8 million dollars to finance a part of the foreign exchange cost of the Bokaro Thermal Power Plant in the Damodar Valley was received by India in April, 1950, at a 4 per cent. rate of interest *plus* 1 per cent. commission.

The Bank, however, turned down several proposed projects, including a scheme to build locomotive plant at Chittaranjan and another to manufacture fertilisers.

Dr. A. Ramaswami Mudaliar, the Indian Delegate, speaking during the U. N. Economic and Social Council's debate on the

Bank's record of work, voiced the feelings of India when he accused the Bank of neglecting the case of backward and under-developed countries. He criticised the Bank for its failure to finance both schemes of post-war economic development, for its unwillingness to take risks even more than private investors and for its charging a high interest rate. Mr. Mudaliar's criticisms were supported by delegates from Peru, Brazil and Chile.

4. Indian Iron and Steel Co. Ltd.

The fourth loan for \$31·5 million was granted to the Indian Iron and Steel Co. Ltd. in December, 1952 at a $4\frac{3}{4}$ per cent. rate of interest *plus* 1 per cent. commission to step up the output of TISCO. The loan is repayable in 15 years.

5. Flood-control, electric supply and canals.

The fifth loan was granted to D.V.C. in January, 1953 for \$19·5 million at $4\frac{7}{8}$ per cent. rate of interest *plus* 1 per cent. commission. It was to be repaid in 25 years. The purpose was the protection of the area against floods, extension of electric power capacity and building of canals.[1]

6. Trombay.
7. Industrial Credit Investment Corporation.

During the 1954-55, two further loans were given for projects in the private sector. The first was a loan of \$16·2 million for a thermal station in Trombay and the second worth \$10 million for the newly set up Industrial Credit and Investment Corporation. The two loans were guaranteed by the Government of India.

8. TISCO.
9. IISCO.

In 1956, two further loans were granted to India. The first was for \$75 million and was given to the Tata Iron and Steel Company. The second loan was given to the Indian Iron and Steel Company for \$20 million.

10. Purchase of jet aircraft.
11. Trombay.
12. Purchase of locomotives.

In May 1957, the Indian Airways Corporation received a loan of \$5·6 million for the purchase of Boeing jet aircraft. In the same month of 1957, another loan of \$9·8 million was given to the Trombay thermal station. On July 12, 1957, the World Bank granted a new \$90 million loan to India for the purchase of locomotives. The loan is for 15 years and bears interest at the rate of 5-5/8 per cent including the one per cent commission for the Bank. Out of this loan, India will purchase 500 locomotives, 10,000 freight cars, rails and other material equipment. This \$90 million loan is made up in the following currencies: 35·7 million dollars in U.S. currency; 24 million dollars in Japanese yen; 19.1 million dollars in pound sterling and 11.2 million dollars in Italian lira.

[1] N. K. Roy, *Indian Currency and Finance*, p. 97.

CHAPTER XXVIII

PROBLEM OF THE STERLING BALANCES

Amount of Sterling Balance in 1938-39, in 1946.

DURING 1938-39, sterling securities held amounted to Rs. 66·95 crores only and balances held abroad Rs. 421 crores. In December, 1946, the total volume of sterling securities held in the Issue Department of the Reserve Bank of India amounted to Rs. 1,135·32 crores, while balances held abroad in the Banking Department were Rs. 485·76 crores. This huge accumulation of sterling balances has given rise to a set of very complex problems which deserve the most serious consideration.

Origin.

The first question is how the Reserve Bank of India came to accumulate those huge sterling assets. The principal cause of the accumulation was the peculiar method of financing the enormous war expenditure of the Allied Governments in India under which the Government of India first found the rupee finance for purchases of large quantities of war supplies and was then reimbursed by payments in sterling in London. Sterling continued to accumulate to the credit of the Government of India in London and all the time it was engaged in the process of finding the necessary rupee finance in India. Secs. 40 and 41 of the Reserve Bank of India Act, 1934, under which the Reserve Bank was put under the statutory obligation of converting rupees into sterling and sterling into rupees, provided the mechanism by which the sterling balances were piled up against the issue of rupee notes in India and generated the enormous inflationary forces in the country. These provisions have consequently been bitterly criticised. An eminent economist and businessman spoke of these balances as having bled white the country and hurt every section and every class of the people.[1] If these provisions had not existed, the Allied Governments would have been obliged to finance their war expenditure in India by the alternative methods of exporting gold or capital goods to India, selling British investments in India, or floating rupee loans in the country. Any one of these methods would

Main cause of accumulation of sterling assets.

[1] M. Subadar's speech, Indian Legislative Assembly, 1944.

have spared us the horrors of inflation from which the country has not yet been able to extricate itself.

Effects.

Although the accumulation of sterling balances produced in India one of the worst forms of inflation known in history, yet it was not considered to be an unmixed evil by British officials who ruled the country. They contended that these balances transformed the status of India from a debtor into a creditor country.

This accumulation brought along with it the question of their repayment in the future. A controversy, which sometimes became very bitter, raged round this question. While India demanded not only the repayment of the balances in full but also the multi-lateral convertibility of the released sterling, there was a section of the British people who argued in favour of a scaling down of the sterling balances. Some financial journals of Britain, and even a few British statesmen, went so far as to suggest the repudiation of Britain's entire debt to India.

Proposal to scale down unfair.

***Interim* Settlement of 1947.**

A temporary agreement for a period of six months regarding the utilisation of the sterling balances was reached between Britain and India on 14th August, 1947. The need for such an *interim* settlement arose from the fact that, under the provisions of the Anglo-American Loan Agreement, Britain had been put under the obligation of making sterling freely convertible into dollars as from July 15, 1947. Sterling, which had been accumulated before that date, could continue to be blocked, but whatever sterling was released would be automatically convertible into dollar. Hence, a limit had to be fixed as to the amount of sterling that could be released from the accumulated balances. The main features of this *interim* agreement were as follows: A distinction was drawn between current balances and blocked balances. Corresponding to this distinction, there were two Accounts—Nos. I and II. No. I Account would be the main operational account into which all sterling agreed to be released as well as future current earnings would go. The No. II Account would contain the remainder of the accumulated balances. It was agreed to release £35 million from out of the accumulated balances and put it in No. I Account. A further sum of £30 million was also placed at the credit of the current account to be used as a reserve available for meeting temporary deficits in India's payments

abroad. Besides, this £65 million which would become available up to the end of the year (1947), certain drawings were also permissible from No. II account.

One effect of this agreement was that India got convertibility but only of the small amounts of sterling released for the purpose. The rest became blocked—blocked against purchases even from Britain and other sterling area countries.

The above agreement was extended up to June 30, 1948 with certain modifications. But the major issue of the liquidation of the sterling balances still awaited solution. These six-monthly arrangements were found to be most inconvenient in practice and prevented the formulation of long-term co-ordinated trade policies.

Settlement of 1948 (made by Sri Sanmukham Chetty).

In July, 1948, a fresh agreement was reached between Britain and India regarding the utilisation of the remaining sterling balances for a three-year period up to June 30, 1950. The agreement provided for the release by U.K. during the period of three years from July 1, 1948 of a sum of £80 million, subject to certain conditions, in addition to which India would carry forward the unspent balance on Account No. I of £80 million out of the previous releases. In other words, the total available foreign exchange for three years, over and above the current earnings by exports, would be £160 million (Rs. 213 crores). India's dollar requirements were substantial and current earnings from exports could only partially cover these. For the time being, it was agreed that in the first year a sum of £15 million (Rs. 20 crores) would be made available for conversion into any currency. Any deficit in hard currencies, not covered by this release, would, therefore, have to be met by borrowing from the I.M.F.

A major disappointment of the agreement was that the release of convertible sterling would be in trickles. The I.M.F. could provide only a temporary expedient and India, in spite of being a big creditor, would have to look for dollars from the World Bank or the U.S. Government. The difficulties of depending on these sources were obvious, inasmuch as such aid has to be shared along with rival applicants.

On behalf of the Government of India, it was claimed that, considering Britain's ability to pay and India's absorptive capacity, the agreement was quite satisfactory.

The Indo-British Agreement of July, 1948 related, besides the question of utilisation of sterling balances, to two other matters—(*a*) the price to be paid for the military stores and installations taken over by the undivided Government of India on 1st April, 1947 and (*b*) the capitalisation of the sterling pensions of British officers who had served in India.

In course of time it came to be recognised both by the Indian and the British Governments that the convertibility allowed in the 1948 Agreement gave India a share far short of her needs. Ever since the end of the last war India had been in the grip of a severe dollar crisis. Due to the operation of a number of specific causes, such as an unavoidable rise of imports—particularly of food stuffs—in the face of an alarming fall of exports, India's dollar deficit in the first quarter of 1949 was bigger than was anticipated. Actually, India overdrew her account in 1948-49 by almost \$84 m. The 1948 Agreement was, therefore, modified by a new Sterling Balance Agreement in July, 1949. The extra dollar expenditure, for which there was no provision in the old Agreement, was provided for in the new Agreement by increasing the convertible sterling at India's disposal from \$60 m. to \$140 m. The net effect of the new arrangements was (*a*) to make a release of £81 million for the year July, 1948 to June, 1949, for which the 1948-Agreement did not provide any release, (*b*) to increase the annual release for the 12-monthly periods ending June, 1950 and 1951 from the original amount of £40 million to £50 million, and (*c*) to cause to be released an additional but unspecified sum sufficient to meet the cost of liabilities entered into under the old Open General Licence before its cancellation in May, 1949. The convertibility arrangement was not made on a bilateral basis between Britain and India, but was rather a part of the Commonwealth Finance Ministers' Conference in London. In the result, India was re-admitted to all the rights and duties of full membership of the sterling-area (which had been taken away from India in January, 1948), and the quantitative limitation on her right to draw hard currency from the central reserves of the Area was removed. In pursuance of the recommendations of the Conference, India undertook to limit her imports from the dollar area to 75 per cent. of the amount she imported in 1948.

Settlement of 1949 (made by Dr. Mathai).

The new Agreement was a slight improvement on the older one. But that it was not India's satisfaction was apparent from a statement of Dr. Mathai, the then Finance Miniser, that "there is need for a very strict scrutiny and a very severe economy during the current year in respect of our foreign exchange expenditure." "The agreement must be judged, not by what is ideally desirable," stated Dr. Mathai, "but by what is practicable" and the terms "seem as good as could be expected in view of the conditions in which they were negotiated."

An improvement but not quite satsfactory.

Much excitement was caused in India over the question of the possible scaling down of the sterling balances. Indian opinion, both official and non-official, persistently opposed any such suggestion. But the Government of India's devaluation of the rupee, following in the wake of the devaluation of sterling in September, 1949, meant virtually a partial writing off of the balances for purposes of use in hard-currency markets.

Extension of Agreement of July, 1948.

The July 1948 agreement on sterling balances was extended for a period of three years ending June 30, 1951. In February 1952, this was further extended by exchange of letters between the two Governments for a period of six years from July 1, 1951, to June 30, 1957. The terms of the extended agreement were as follows:

Agreement.

There should be transferred forthwith from the No. II Account to the No. I Account the sum of $310 million, to be held by the Reserve Bank of India as a currency reserve. It was the intention of the Government of India not to draw upon this sum, and it agreed not to do so without previous consultation with the Government of the United Kingdom.

The balance from time to time standing to the credit of No. 2 Account, after the transfer provided for above had been made, should be transferred to the No. 1 Account in instalments not exceeding £35 million in each of the six periods of twelve months beginning with 1st July, 1951. Any balance standing to the credit of the No. 2 Account on 30th June, 1957, should be transferred automatically to the No. 1 Account.

The Governments of India and the U.K. entered into a financial agreement on 20th July, 1953, with regard to the release of India's sterling balances. The agreement had retrospective effect from July 1, 1951 and would remain in force for six years, that is, up to 30th June, 1957. This agreement did not contain

any new provision. It only ratified and consolidated the agreement of 8th February, 1952, mentioned above.

Agreement, 1953.

The main provision of the 1953 agreement was that the amount £310 million unblocked and transferred to the current account under the 1952 agreement, would be retained as a currency reserve and it would not be drawn upon without prior consultation with the U.K. Government. The other provisions of the agreement were intended to regulate the flow of the annual instalment transferred from No. 2 Account to No. 1 Account. Every year, during the life of the agreement, a sum of £35 million would be transferred to the No. 1 Account. Such transfers would be made only as and when necessary to maintain a minimum balance of £30 million on No. 1 Account, in addition to the aforesaid sum of £310 million held as currency reserve, and would be available for utilisation during each year. Any part of the unutilised portion of the sum transferable in any year would be carried forward and added to the sums available in the later periods, provided the minimum balance of £30 million is retained in addition to the currency reserve. Subject to this condition, the Government of India was free to overdraw in any year to the extent of £5 million without previous consultation with the U.K. Government. If during any particular year India required to draw an additional amount, she should consult the U.K. Government. Any balance standing on No. 2 Account on 30th June, 1957 would be transferred to No. 1 Account.[1]

Cost of sterling balances.

The sterling balances were accumulated not only through the sufferings and sacrifices of the entire people of India but through the death of fifteen lakhs of persons in Bengal. These assets should, therefore, have been regarded as most valuable and ought to have been earmarked entirely for the purpose of alleviating the miseries of the people. But, unfortunately, a substantial part of these assets was spent for meeting adverse trade balances. It may be argued that the balance of payments position of India had become so difficult that, without recourse to this expedient, India would not have been able to avoid a financial crisis. The reply to this argument would be that lack of foresight and imagination on the part of the Central Government of India was responsible for this situation.

Frittering away indefensible.

[1] N. K. Roy, *Indian Currency and Finance*, p. 112.

But whatever might have been done in the past, they should be more careful in future and should preserve the remainder of these valuable assets for the work of the economic reconstruction of the country.

During the first five years of the agreement, India's withdrawal of sterling balances was much less than that provided for in the agreement. Thus, as against £175 million that could be withdrawn during this period, together with £90 million, being the balance of the amount withdrawable under the previous agreement, or £265 million in all the actual amount utilised was no more than £131·91 million. Again, in the first five year Plan, it had been estimated that the sterling balances would decline by £220 million (Rs. 290 crores) on account of excess of imports over exports. In this case, also, the net amount withdrawn was no more than £105 million (Rs. 140 crores). These slow net withdrawals from foreign exchange reserves were due, in the main, to an unexpected improvement in India's agricultural production—particularly in foodgrains—which enabled a saving in the foreign exchange budget of the Plan, and to the failure of some of the key industrial projects, included in the programme for the public sector, to materialise. But of late there has been a rapid fall in the sterling balances. On 19th October, 1956, the sterling balances stood at £443·31 million (or Rs. 591·42 crores). These heavy withdrawals were due to large imports in the face of a downward trend in exports.

Withdrawals during First Five-year Plan.

On account of persistent deficits, India's sterling balances held with the Bank of England progressively decreased. In the middle of July, 1957, the total amount of sterling balances came down to just Rs. 457 crores. Of this amount, the sum of Rs. 400 crores is required to be kept as currency reserve being set against the notes issued by the Reserve Bank of India. Under section 37 of the Reserve Bank Act, the Reserve Bank can, however, draw down the sterling balances further, but on no account the amount should fall below Rs. 300 crores. This can be resorted to as a temporary measure. Normally, India should maintain Rs. 400 crores as her currency reserve in sterling, and this amount should not be made available for payment for our imports.

Recent happenings.

The Indo-U.K. Agreement on sterling entered into in 1953 expired on June 30, 1957. That means, India is now free to

Starting Balances dwindle down to insignificant figures.

withdraw her entire sterling balances, if she so requires. It should, however, be remembered that the amount of sterling balalnces varies with the terms of trade; but in recent months the rate at which India has been withdrawing her sterling balances gives cause for alarm. A short time ago, India received $200 million from the IMF as a stand-by credit. But that amount also has been withdrawn for payments abroad. In order to overcome our difficulty in paying for the import of capital goods, India has made arrangements with several countries, like West and East Germany and also some other countries in East Europe for deferred payments.

CHAPTER XXIX

INFLATION

SOON after the commencement of the War the price index as well as the cost of living index began to rise, and the rise continued steadily as World War II progressed. In the beginning, the official attitude towards the rising level of prices was that it was not inflationary. Sir James Taylor, the then Governor of the Reserve Bank of India, admitted in August, 1942 that there was an enormous rise in Indian prices, but there was no cause and effect relation between the increase in the currency and the rise in prices. Sir Jeremy Raisman in his Budget Speech of 1943 contended that the belief that a general rise in prices must mean inflation and that it was caused by an avoidable expansion of currency was the result of confusing cause with effect. He observed: "Some of the fear which is now expressed arises from a failure to distinguish between pure credit inflation and the temporary situation in which an increase in the volume of purchasing power impinges for a time on a stationary or diminishing volume of consumable goods. In India the Government had at no time resorted to credit inflation. The easy expedient of borrowing from the Reserve Bank had not been adopted for making up the revenue deficit of the Governmental budgets or for augmenting Government balances for the purpose of meeting disbursements." The Finance Member also referred to the difficulty of making a quantitative determination of the phenomenon of inflation because of a lack of accurate statistics. At any rate, according to him, there was not the remotest risk of the inflation of the nature and extent that could be witnessed in some European countries after World War I. Warnings, however, were given repeatedly by some members of the Legislative Assembly against the serious consequences of the steady and enormous expansion in paper currency which had been taking place.[1]

Official attitude.

Non-official attitude. Criticism in Legislature.

[1] *Vide* speeches by Dr. P. N. Banerjea in the Legislative Assembly, 1942, 1943 and 1944.

Causes of rise in prices.

Prominent businessmen were of the opinion that the rise in prices was due to the scarcity of goods rather than the excess of purchasing power. They further contended that the reduction in the velocity of circulation had more than offset any currency expansion that might have taken place.

Though a part of the rise in prices could be accounted for by real scarcity, the explanation of the general level of prices of all commodities rising simultaneously at a rapid rate was to be sought in the existence of an increase in supply of currency, not justified by the prevailing level of production. The consensus of opinion among the economists was that the source of the all-round rise in prices and the consequent deterioration in the standard of living was to be found in the arrangements in force under which rupee-note disbursements were made in India on behalf of the British and Allied governments, the latter discharging their obligations in regard to war expenditure in India by providing sterling in London. A close correlation between the increase in the volume of note-issue, growth of sterling balances and rise in the level of prices was sought to be established by them.

Creation of large amount of paper money.

Rupee-notes had been created in increasing quantities against the large and growing volume of India's sterling balances which continued to remain practically frozen in London. The Government of India thus assumed responsibility for providing rupee finance for India's recoverable war expenditure. The yield from current taxation and internal borrowing from the public did not cover the whole of this rupee finance. Although the budget deficits of the Government might have been fully covered by taxation and borrowing, this fact makes it clear that the Government had recourse to the inflationary method of financing that portion of war expenditure which was recoverable from the Allied Governments.

Change in official attitude.

It is curious that within two months of the passing of the Budget for 1943-44, when the Finance Member had made a serious effort to explain away the existence of inflation, the Government of India introduced anti-inflationary measures by Ordinances. In introducing the Budget for 1944-45, the Finance Member observed that he considered it to be his first duty to deal with the menace of inflation of the dangers of which all had become conscious. This change in the attitude of the

Finance Member came very late, but even then the policy of the Government was not changed. The evil of rising prices could not be checked by partial and insignificant measures.

A five-fold anti-inflationary drive by the Government was contained in the new Ordinances and the new Defence of India Rule:—(1) summary assessments for Excess Profits Taxes; (2) conversion of the optional deposit systems into a compulsory one for Excess Profits Taxes; (3) rational control of bonus and commission; (4) power to prescribe what stocks would be deemed reasonable for income-tax purposes; and (5) prohibition of the issue of new capital without the previous sanction of the Government of India.

Anti-inflationary drive.

When we consider the steps taken by the advanced countries to prevent and check inflation, we find a great contrast between their attitude towards the question and that of the Government of India. In the United Kingdom, the Government made a successful attempt to check the rise in the cost of living in war-time by a well-planned policy of subsidies, price control, and rationing. Between 1941 and 1944, the cost-of-living index was stabilised round about 122, when the wholesale price-index varied within the range of 131-144. In the United States, a substantial measure of price stability was also achieved. The cost-of-living index had increased from 86 in March, 1941 to 102 only in 1944. But in India, the Bombay cost-of-living index stood at 224 in 1944 and rose subsequently to 244 in 1946 and 258 in 1947. Thus India, though not directly concerned in the War, fared much worse than the United States and Great Britain. The main reason is to be found in the fact that no adequate measures were taken to keep down prices in India. The introduction of price control and rationing came late, and even then these measures were not taken in the right manner.

Steps taken abroad contrasted.

The evils of the inflationary rise in the prices were marked in every sector of India's economy. The poorer classes, which comprise the majority of Indians, were particularly hit very hard by the unprecedented rise in the cost of living. There were widespread distress, malnutrition, starvation and even death in large numbers. A publication of the United Nations Department of Economic Affairs remarked in September, 1947: "It is correct to observe that this Bengal Famine of 1943 was largely a consequence of the inflation".

Evils of inflation.

Prices stable at a high level during end of 1943 and end of 1945.

From the end of 1943 to the end of 1945, prices in India remained relatively stable though at a very high level, as compared with 1939. The pace of price increase was considerably checked after the middle of 1943. The two main factors that were responsible for this relatively stable situation were: (1) Budget deficits, after having reached a peak in 1943-44, became stabilised during the next two years, though at a very high level, and (2) introduction of partial rationing allowed a reduction of prices as compared with what would otherwise have been. By July, 1944 limited schemes of rationing were in operation.

Black-marketing.

Outside the prescribed areas of rationing and in respect of non-rationed goods, more or less free markets existed and prices were generally unrestrained except by market forces. There was also a good deal of blackmarketing in breach of controls. The relative stability of prices during this period should not mislead us to conclude that the position was satisfactory and that there was no cause for anxiety.

Rise in prices.

It was widely believed during the war years that the end of the war would bring about a depression and a sharp decline in prices. Although there was a substantial reduction in defence expenditure and in the budget deficits to which the war had given rise, as also a cessation of war demand, the price level in the country continued to rise, though at a varying pace and subject to temporary and slight recessions from time to time.

The rate of increase in the general index during 1946 and 1947 was considerably high, although it was about 10 points less in 1947 than in the previous year ; the extent of the advance in the group index for primary commodities which included agricultural commodities was almost the same during the two years, while in respect of the other two indices, that is, those for raw materials and manufactured articles, the rate of rise was less in 1947 than in the previous year. The most significant increase, however, was in the general and group indices during the four months ended February, 1948, when the rise equalled, and in some cases exceeded, the total annual rise for the year 1947.

The main explanation for the continued rise in prices in spite of a reduction in budget deficits which was expected to bring

about a decrease in consumption demand is to be found, first, in the fact that "delayed demand" for consumption goods had some appreciable effect on maintaining the total demand, and, secondly, on the supply position.

The incomes of large landowners, industrial capitalists, big traders, and rich peasants had considerably increased in war time. Although they had spent a good deal, there were many things which had been unobtainable. Such a delayed demand was more for imported than for home-produced goods. Thus the total demand was very high. The agricultural production was less and on the other hand, industrial production showed a declining trend. Unsatisfactory despatches of coal, bottle-necks in transport, communal disturbances and industrial unrest were the chief causes of a decline in production. **'Delayed demand.'**

Changes in the total quantity of money supply in the country (including Pakistan) may also be considered in this connection. The total money supply is taken here to refer to the sum of notes in circulation, rupee coins in circulation and the demand liabilities of the scheduled banks *minus* notes and coin held by the scheduled banks. In 1946-47 the change in the money supply was negligible.

Sir Chintaman Deshmukh, Governor of the Reserve Bank of India, in his annual address to the share-holders in August, 1948 made a searching analysis of the causes of the upswing in the inflationary curve (September, 1947 to June, 1948). He argued that purely monetary influences played a minor role, for commercial bank credit had been declining for some time and notes had also been returning from circulation at a fairly rapid rate. He listed the following remediable causes of this inflationary spurt: (1) a premature policy of decontrol, (2) deficit budgetting by the Central and Provincial Governments on both revenue and capital accounts and (3) declining industrial production, specially for the home market. **Deshmukh's analysis.**

Inability to obtain machinery and other capital equipment also hampered the expansion of the output of India's production of industrial consumption goods. This was no doubt a temporary condition; but so long as it continued, it was sure to contribute to the inflationary trends in India. The redistribution of money income in favour of the wage-earning class, at a time when real income as measured by the volume of **Inability to obtain machinery.** **Money income readjusted.**

production of goods and services was known to be falling, tended to accelerate the price advance.

The effects of all these inflationary forces, however, were not fully reflected in the extent of the rise in the general index number which between October, 1946 and October, 1947, fluctuated between 289 and 298, presumably because some of the principal commodities covered by the index were controlled and rationed and for purposes of computation only official prices were taken into account.

Effect of premature decontrol of food grains.

Government policy of progressive decontrol of food-grains was implemented after November, 1947. That at once brought about a sudden spurt in prices. The general price index, which had been almost continually rising, shot up from 290·5 in January, 1947 to 381·0 in June, 1948—the rise being marked particularly since November, 1947. During the period from November, 1947 to June, 1948, the index rose by 79 points. The food index rose from 294·8 in November, 1947 to 377·0 in June, 1948, an increase of 82 points.

Suggestions by Committee of Economists.

The remedies suggested for checking the inflationary developments by the Committee of Economists, consulted by the Government of India in the middle of August, 1948 were as follows:

(1) Balancing of budgets by the Central and Provincial Governments by retrenchment of expenditure. Proposals relating to welfare activities, grants to provincial governments for various schemes of development and the Grow More Food Campaign should be scrutinised and expenditure under these heads should be restricted.

(2) Postponement of the refunds of E.P.T. deposits.

(3) Postponement of schemes relating to prohibition.

(4) Postponement of abolition of Zamindaries by payment of compensation in cash.

(5) Reviewing the existing commitments of capital expenditure, with a view to ascertaining which could be postponed without serious disadvantage.

(6) Prevention of Tax Evasion.

(7) A graduated surcharge on income-tax in personal incomes above Rs. 5,000.

(8) Increase of the Business Profits Tax from 10 per cent. to 25 per cent.

(9) Raising of the levels of personal Super-tax to those which were in operation in 1947-48.

(10) Introduction of steeply graduated death duties.

(11) Introduction of agricultural income-tax in all provinces.

(12) Surcharge on land revenue.

Suggestions of monetary measures.

The following monetary measures were also recommended:

(1) To put a ceiling on note issue and (2) restriction of credit by prescribing a holding of Government securities amounting to at least 25 per cent. of the total demand liabilities of each bank.

In regard to controls, besides the introduction and intensification of rationing and price control, it was suggested that a ceiling should be placed on all personal incomes such as wages, salaries and dividends. In the case of new companies the dividends should not exceed 6 per cent. Many of these suggestions were of an unpractical character, and they were not given effect to.

Price trends during 1949-50.

Inflationary forces could not be mitigated and they continued to be the major problem throughout the period, July, 1949 to June, 1950. The need for holding these forces in check was not only as great as before, but even greater after the devaluation of the rupee in September, 1949. After the devaluation, the Government became particularly alert to this aspect of the question and decided to intensify its anti-inflationary drive. In October, 1949 a comprehensive eight-point programme was outlined. The principal objects of this programme were: first, to increase India's earnings of foreign exchange, and, secondly, to bring down the level of prices. The various steps that the Government took in launching afresh its anti-inflationary drive included (1) cuts in the prices of controlled commodities like food-grains, cloth, etc., (2) prohibition of future trading in cotton seeds, sugar, *gur*, etc., with a view to checking speculation, (3) imposition of export duties on some of the goods exported to hard currency countries, (4) reduction of government expenditure and (5) introduction of a scheme for compulsory savings applicable to government servants.

Inflation not mitigated.

Money supply increased.

Despite the various disinflationary measures money supply increased during July, 1949—June, 1950 by Rs. 16 crores as against a fall of Rs. 137 crores in the year 1948-49.

Rise in Index Number.

The Economic Adviser's general index showed an unmistakable and continuous upward trend during June, 1949 to September, 1949. It shot up from 378·3 to 389·8 during the period. After the devaluation of the rupee a new peak was reached in October, 1949 when the price index soared to 393·3. The anti-inflationary drive of the government after the devaluation led to a slight recession of the price-level in the beginning when the index declined to 381·3 in December, 1949. But the first quarter of 1950 witnessed a definite reversal of the trend and the October peak was again reached in May, 1950. In June, 1950 there was a further increase when the index reached 395·6. The index continued to rise and in July it leapt to 405·2.

Problem aggravated.

The price situation was most disconcerting and implied the presence of a very strong inflationary force in the economy of India. The aggravation of the problem clearly indicated either the inability or the unwillingness or both of the Government to control inflation. Meanwhile, the entire people of India, particularly the poor and the middle classes, suffered untold hardships owing to the extremely high prices of food and other essential necessaries of life and acute distress prevailed all over the country.

The uptrend in the general price-level noticed during the closing quarter of 1949-50 gathered further momentum during 1950-51 particularly during the latter half of the year. The continuation of the gradual rise in prices since devaluation was accelerated with the outbreak of the Korean war in June, 1950; prices tended to become steady between September and December, but thereafter the uptrend continued and prices reached a peak of 438·6 in March, 1951 as against 392·4 in March, 1950.

1950-51.

The rise in the Indian price-level during 1950-51 was, however, less marked than in many other foreign countries.

1951-52.

The post-Korean rise became more marked in India, as in other countries, in the early months of 1951, the general price-level rising to a peak by mid-April, 1951. The general index of whole-sale prices, which had risen from 397·1 in June, 1950 to 449·6 by the end of March, 1951, advanced further to the peak figure of 462·0 by mid-April, 1951. Thereafter, mainly as a result of the international developments the price situation in India showed a steady improvement; the decline in prices becoming more pronounced in the closing months of 1951-52.

Peak of 462·0 in mid-April, 1952.

The actual decline in prices was from 428·8 at the end of January, 1952 to 378·2 at the end of March, 1952.

During 1952-53, the general price-level in India, as in most other countries, was comparatively free from the sharp fluctuations noticed since the outbreak of the Korean war. The precipitate decline in wholesale prices during February-March, 1952 was followed by the restoration of a measure of stability at the lower levels. In pursuance of Government's policy to stabilise the general price-level at a reasonable level, the authorities continued to watch the situation with a view to preventing more fluctuations. Broadly speaking, the price-level responded well to the various stabilisation measures adopted by Government. The substantial improvement in industrial production was undoubtedly an important factor in the comparative stability of the price of manufactured goods; it also probably contributed to some extent to the rise in the price of raw materials. Speculative overtrading and overstocking which had greatly accentuated price-variations in the post-Korean period, were considerably subdued during 1952-53. Variations in external demand affected considerably the price-movements of some commodities like jute manufactures and tea. 1952-53.

It is worthy of note that the general index at 385·2 for March, 1953 was below the pre-Korean figure of 393·3 for May, 1950. The average index for 1952-53 was 380·6 while that for 1951-52 had been 434·6. During 1952-53 Government adopted their price-control policy to the changing conditions of demand and supply; suitable adjustments were also made in the existing controls over production and distribution in an effort to safeguard the interests of both producers and consumers. Over the year 1952-53 as a whole, there were sharp and conflicting movements in the individual commodities with the result that the group indices showed relatively small net changes.

The gradual uptrend in wholesale prices noticed since mid-December, 1952 received a mild set-back towards the close of March, 1953, which continued till early April, reflecting mainly the reaction of commodity markets to the Communist peace moves in Korea. But the price-level began to rise again from mid-April, 1953 and the general index stood in May, 1953 at 397·4 as against 372·7 in December, 1952. The uptrend in the general index continued up to the middle of August. 1953-54.

Thereafter, prices began to decline and there was a drop from 410·8 for August, 1953 to 403·8 for September, 1953. This decline was stopped by the middle of December, 1953 when the price-level began to rise from 387·0 to 392·6 at the end of that month. During January, 1954, the uptrend in wholesale prices continued, except towards the close. The price-level fell from 401·0 for the week ended January 23, 1954 to 391·3 for the week ended March 6, 1954. But the renewed uptrend in wholesale prices was noticeable since the second week of March, 1954, which continued further, and rose to 404·2 for the week ended April 17, 1954. Since then the price-level showed a definite tendency to decline and the actual general index stood at 385·2 for the week ended June 5, 1954. In 1952-53 money supply to the public showed a decline of Rs. 37 crores as compared to Rs. 173 crores in 1951-52 while there had been an increase of Rs. 99 crores during 1950-51. Notes in circulation on June 11, 1954 were Rs. 1,208 crores as against 1,167 crores on June 12, 1953. But this increase could not raise prices owing to improvements in both agricultural and industrial production in 1953.

1955-56. The price situation underwent a marked change during 1955-56. Commodity prices recorded an almost continuous rise during the greater part of the year in contrast to the decline in the preceding year. During the year, the Economic Adviser's general index of wholesale prices (base: year ended August, 1939=100) rose by 11·6%. At the end of March, 1956 the index stood at 390·3, which was close to the level of two years before. However, the average for the year was 4·6% lower than that for 1954-55.

The rise in prices which commenced in early June, 1955 was in the nature of a correction of the sharp decline which took place during the preceding one year or so and was assisted to a certain extent by Governmental measures including limited price support, to achieve a reasonable degree of price stability.

However the almost continuous upward trend, especially in the latter half of the year suggested the operation of certain basic factors at work—in brief, a somewhat larger demand against a somewhat smaller supply. The short supply was due to a lower production of cereals in 1954-55, and also apprehensions of a lower output in the 1955-56 season owing to floods or drought, combined with increasing export of certain indus-

trial raw materials in 1955-56. This factor again corrected with an inventory build-up in view of the accelerated pace of industrial development.

As regards the influence of monetary and credit factors, there was during 1955-56 a substantial expansion of money supply with the public (Rs. 264 crores or 13·7%) owing mainly to the budgetary deficit of Government and extension of credit by banks.

It would, however, appear that the increase in money supply and bank credit reflected in some measure the legitimate needs of an expanding economy, and such impact as it had on prices through speculative hoarding was relatively of a minor nature. The proposed substantial stepping up of developmental expenditure during the Second Five Year Plan, involving larger deficit financing, have also contributed to an inflationary psychology. This led to a hoarding in anticipation of a substantial price rise later.

In these circumstances, Government's price policy which earlier in the year was directed to check the decline in prices was switched on towards a policy of arresting the rising trend of prices. Some of the measures taken were the imposition of restriction on exports, release of Government stocks of food grains for sale to the public at fair prices and arrangements for larger imports. Credit policy has also been geared towards achieving the same objective.

The general price level at the end of 1955-56 was 13% below the level at the begining of the First Five Year Plan and at the end of march, 1956 was slightly below even the pre-Korean War level. The price movements during the five year period, however, was irregular and at times was characterised by wide fluctuation. Since the fluctuations were mostly in primary commodities, it would appear that variations in supply were mainly responsible for the price trends.

The first half of the year 1957 witnessed an almost continuous 1957.
rise in the prices of food articles. There was also a rise in the general price index. The Note circulation was higher during this period. The official wholesale price index (with the year ended March, 1953 as 100) advanced further by 0·7 per cent. to 113·2 during the week ended August 3, 1957 as compared with 112·4 (revised) for the earlier week.

Criticism. Strenuous efforts must immediately be made to reduce prices to a substantial extent. Inflation prevailing over a long period of time has been the most fruitful cause of strikes and lock-outs. High prices of foodgrains have not only adversely affected the health and strength of the people but have resulted in near-famine conditions in almost all parts of India. Evidences of discontent are perceptible everywhere. If prices be not reduced, a situation will arise which will prove prejudicial to the success of the Second Five Year Plan and lead the country to a serious economic disaster.

CHAPTER XXX

TRADE PROBLEMS

1. TRADE POLICY

THE Charter granted to the East India Company by Queen Elizabeth in 1600 A.D. marked the commencement of commercial relations between India and England. When, two and a half centuries later, the Company assumed ruling authority over India, it still remained a trading corporation. Naturally, the commercial interest of Britain dominated the trade policy of the Company. This policy continued for a long time even after the assumption of India's administration by the British Crown in 1758. It was only in the last phases of British rule in India that some modifications took place in this policy.

East India Company a trading body.

After the achievement by India of freedom her foreign trade policy should now be so directed as to help the development of the country's industry. This idea of India's external trade as a handmaid to her internal development must guide our trade policy in future.

Before the Second World War, India's foreign trade policy was directed largely by her need to meet large Home Charges in Britain and the interests of Empire trade. This policy aimed at the creation of an export surplus.

Trade Policy before World War II.

During World War II, India's foreign trade policy was conditioned by the over-all requirements of the War, and India became the most important supply base for war materials to the Allies. Imports naturally fell to a trifle, while exports greatly expanded, resulting in the accumulation of large balances in England known as the Sterling Balances.

During World War War II.

When the Second World War ended, India's trade policy had to be geared afresh to the condition of peace-time economy. Restrictions on imports were reduced almost to the vanishing point, at least so far as those coming from Commonwealth countries were concerned. At the same time exports failed to expand both on account of larger consumption at home and continued restrictions, in the interest of

Post-war Trade Policy.

Relaxation of imports, restriction on exports

immediately after World War II.

increased food supply, on the area under certain export crops such as cotton, jute etc. Exports of certain articles, *e.g.*, groundnuts, were prohibited altogether or were controlled in order to conserve domestic supplies or to be exchanged against food imports from other countries. The control was both quantitative and destinational. Exports of cloth and of jute, for example, was permitted to certain countries in exchange for food imports from them. The Import and Export Control Act, 1947, conferred upon the Government necessary powers for three years to regulate the import and export trade of the country during the transitional period.

When, in 1947, Britain for the first time imposed a limit upon the amount of the sterling balances to be released for current payments, the first major revision was necessitated in India's foreign trade policy, with emphasis upon control of imports. This control also was quantitative as well as destinational.

Import regulation in 1947.

The Government announced their new policy on 3rd July, 1947, which broadly classified imports into three categories, *viz.*, free, restricted and prohibited. While food, capital goods, certain raw materials for industry and essential consumer goods were allowed to be imported freely, other goods which were not strictly essential were subjected to licensing up to certain monetary limits. Over 200 luxury items were placed on the prohibited list. Towards the close of 1947 the Government were forced to tighten import control further in view of an acute dollar shortage, by abandoning the principle of non-discrimination regarding the sources of imports. Thus a new feature was introduced in India's trade policy, and a distinction was made between dollar and non-dollar sources of supply with a view to bringing imports from the dollar areas under stricter control. This resulted in a revised classification of imports into the following categories: (*a*) those licensed freely from dollar and other hard currency areas, (*b*) those licensed freely from sterling and other soft currency areas, (*c*) imports licensed only up to certain monetary values from either hard currency or soft currency areas and, lastly, (*d*) those which were prohibited from all sources.

Liberalisation of exports.

At the same time, in pursuance of the policy adopted by the Government in 1945, of relaxing gradually control over exports, there was some liberalisation of exports, and the over-all quanti-

tative limits imposed upon controlled exports were raised in certain cases.

The highly restrictive trade policy adopted from July, 1947 to June, 1948, however, proved too drastic and only £3 million could be utilised out of £83 million released by the U.K. for the period. The Government, therefore, as an experimental measure again liberalised imports, but had to tighten up control once again in May, 1949 when the import surplus tended to outrun current earnings of foreign exchange *plus* setrling releases. Thereafter, since 1950, procurement of essential imports became a more serious problem than conservation of foreign exchange, and import control was, on the whole, continuously liberal.

Recommendations of the Import Control Advisory Committee, 1950.

The Import Control Advisory Committee, recommended in October, 1950 that there should be stability in import policy in three principal directions, *viz.*, over-all exchange allocation, the general licensing policy in respect of particular commodities, and administrative methods and practices. With such stability, the Committee felt, import control was liable to serious fluctuations causing uncertainty to trade and dislocation in commercial relations. The Committee suggested that a minimum annual allocation of Rs. 400 crores for commercial imports should be provided for in the foreign exchange budget for the next two years. The basic objectives of import control policy, according to the Committee, should be (*i*) to limit the aggregate imports on Government and commercial accounts to the total available foreign exchange earnings including the sterling releases, (*ii*) to distribute the available foreign exchange resources in the most equitable manner with a view to securing planned development of agriculture and industry and to meet the essential requirements of the consumers, and (*iii*) consistently with the above objectives, to moderate the fluctuations in prices of particular commodities where they might have risen above the parity of particular prices.

The Committee also expressed themselves in favour of decentralisation of licensing procedure, extension of free licensing system, licensing by areas and not by countries, increased facilities to 'newcomers' and steps towards the improvement of the efficiency of the import control system. It also recommended the following new order of priorities for the next two

years: (*i*) raw materials for existing industries, (*ii*) spare parts and accessories, (*iii*) machinery and equipment for agricultural production, (*iv*) plants and machinery for replacement, (*v*) consumers' goods essential to the life or health of the community, (*vi*) machinery and equipment for industries likely to increase production or reduce costs incurred, (*vii*) machinery for the establishment of new industries and (*viii*) non-essential goods.

Recommendations accepted by Government in 1951.

Most of the recommendations of the Committee were accepted by the Government of India by a resolution in January, 1951. The Government agreed to endeavour to maintain a high and stable level of imports consistently with their essential import obligations and earnings of foreign exchange, although it might not be possible to adhere strictly to the figure of Rs. 400 crores or to an elaborate order of priorities as suggested by the Committee.

Export restrictions during 1950-51.

Export control policy underwent some changes during 1950-51 necessitated by a very large increase in exports as a result of both devaluation and Government measures for promotion of exports. The result was that the country was threatened with a scarcity of essential raw materials. There was, therefore, for the time being at least, a reversal of the policy of liberalisation and its substitution in several directions, either by a temporary suspension or even the banning of exports or by export allocations. Among the articles, the exports of which were banned or restricted were wool, groundnuts and groundnut oil, and cotton textiles. A by-product of the scarcity of raw materials was the emergence of a sellers' market which let the Government to levy new export duties or increase existing duties.

Export control policy revised in 1952.

While the policy of gradual liberalisation of imports was continued, export control policy was again revised in 1952 with the passing of scarcity conditions and the re-emergence of a buyers' market. The emphasis was now again on export promotion and not export regulation. Restrictions on the export of a large number of articles were relaxed, export quotas were increased and export duties reduced. Destination-control of exports of jute goods was first modified and abandoned altogether by March, 1952 and destinational control on exports of cotton textiles to *entrepots* like Aden and Hongkong were also discontinued. A further step to stimulate exports was the liberalisation of quotas and simplification of licensing procedure.

Important commodities like cotton piece-goods, jute goods, certain varieties of cotton yarn and raw wool were placed on the free licensing list. Some commodities, the exports of which had previously been banned, were allowed to be exported in limited quantities. As a result of all these measures about 90 per cent. of the export trade was freed from export restrictions.

Policy of export promotion continued during 1953-54.

During 1953-54, Government policy of export promotion continued to be pursued vigorously, and a number of export duties were re-adjusted. Further, the Sea Customs Act of 1878 was amended to permit the grant of a rebate of import duty on raw materials and components used in manufacture of goods subsequently exported.

Import policy for January-June, 1954.

The import policy for the period January-June, 1954 was chiefly a continuation of the previous half year's policy. The scheme of token imports was continued. Greater provision was made for large imports of raw materials, industrial equipment and certain essential consumer goods. Import quotas of certain items the indigenous production of which had improved were stepped down. Only a few changes in the procedure for grant of licenses were made. The share of 'new-comers' in the import trade was expanded.

Import policy for July-Dec. 1954.

One of the main aspects of the import policy for July-December, 1954 was that the rigid licensing system was relaxed and the procedure for the issue of licences to all categories of importers was simplified. Special attention was paid to the interests of small importers who would in the case of a certain items be able to obtain licences for enhanced values.

The intimate relationship between imports and exports was recognised by simplifying the procedure for the grant of licences under the Export Promotion Scheme and expanding the scope of the scheme to include a few more items.

The import of those articles which could be produced in the country and could meet the internal requirements, was restricted with a view to saving foreign exchange.

The view and suggestions of the Import Advisory Council and of various interests were considered in the formulation of the present policy. The improvement in the foreign exchange position, the developments in the industrial field, the require-

ments of the industry and the needs of the consumers were taken into consideration before finalising the policy.

Controlled Decontrol.

The new liberal import policy which was characterised as 'controlled decontrol' would not only help to maintain the present import at a slightly higher level, but would also result in diversification of import trade into as many hands as possible.

Trade diversification.

Imports of some articles on which there were high import duties, were also been liberalised as an experimental measure. An unorthodox method of liberalisation which was expected to lead to diversification of import trade was also tried.

The Government after reviewing the pattern of import trade in regard to certain goods found that import quotas were monopolised by one or two big importers, who it was alleged, did not 'play their game', in arranging proper distribution of supplies with the result that the prices were sky-rocketted. Though the import quota for those items was not increased, the Government decided to allow others who were directly connected with the distribution of those commodities to import directly.

Employment Angle.

The purpose of the new import policy was to free the channels of trade to import as much of what was needed and what was not manufactured in the country. It got a direct employment angle, as provision was made to allow as much opportunities to people to enter into the field of import trade as possible.

Import policy in 1954-55 remained more or less the same that had been followed during the previous few years.

Import Policy, 1955-56.

Reduction.

In 1955-56 discrimination against dollar imports was relaxed in the case of 55 items and permission was granted to utilise a part of the soft currency licences for imports from the dollar areas. With a view to conserving foreign exchange resources, import quotas of some items, whose domestic production had increased, were reduced. In pursuance of Government's export promotion policy, Export Promotion Councils were set up for plastic manufactures, engineering goods and pepper. Export duties were reduced or abolished for a number of items like raw cotton, sesamum oil, jute manufactures, black pepper and coffee ; a number of commodities like cotton textiles, groundnut oil cakes, cotton seed oil and chrome ore were placed on the free licensing list ; and additional quotas were granted for raw

wool, certain varieties of short staple cotton, groundnut oil, groundnuts and tea.

Promotion of export.

Following a steep rise in the value of imports and a simultaneous fall in export earnings in 1956 and the consequent depletion of the country's foreign exchange resources, the import policy for January-June, 1957 involved a curtailment of "relatively less essential imports" and the dropping of the scheme of liberal licensing. To promote exports, additional items were included in the Export Promotion Scheme List and an attempt was made to link export of indigenous art silk fabrics to licensing of art silk yarn fabrics. Export Promotion Councils were established for different commodities including cotton textiles, silk and rayon textiles, plastics, engineering goods, cashewnuts and pepper, tobacco and leather. A scheme was introduced for the grant of drawbacks on customs duty on imported goods used for the manufacture of articles for export.

An all-out effort to increase India's export is necessary. The task of export promotion is a patriotic activity. The country has achieved a certain measure of success in industrial effort. We are now producing a variety of goods which stand comparison with the best of those produced by the industrially advanced nations.

To provide protection to exporters against risks arising in export trade, the Government have decided to set up an Export Risks Insurance Corporation. The Corporation will cover only those risks which have been recommended by the Export Credit Guarantee Committee and will take care not to cover risks where there can be collusion between exporters and importers, fraudulent practices and losses due to the fault of the exporter. The Scheme will be worked on a voluntary basis. The authorised capital of the Corporation will be Rs. 5 crores for the present. The headquarters will be located at Bombay.

Sharp cutting of imports.

Addressing the meeting of the Import Advisory Council, on June 6, 1957 the Union Commerce and Industry Minister Sri Morarji Desai, declared that, in view of the "heavy inroads into our Sterling reserves", a substantial reduction in the import of consumer goods in the next six months would be imposed. The issue of import licences for 20 different items of steel was restricted with effect from June 1, 1957.

Complete suspension of the issue of licences to established importers, non-renewal of the Open General Licences expiring at the end of June 30, 1957 excepting those covering imports of poultry, fish, fresh vegetables and eggs from Pakistan, issue of licences for capital goods on suitable deferred payment terms and special attention to the needs of export industries were the main features of Government's new import policy for the three months July to September, announced on July, 1957.

2. TRADE AGREEMENTS

Trade Agreements.

A special feature of the foreign trade policy of India during the post-war period has been the conclusion of a large number of trade and barter agreements with various countries. The objectives of these agreements have been mainly two, viz. (*i*) to ensure the availability of essential goods, not otherwise available, and to secure them as far as possible from soft currency areas; and (*ii*) to promote the export of Indian goods. However, with relaxation of control upon foreign trade in various countries during the past few years and the emergence of the buyers' market in various commodities, the need for concluding such agreements has gradually diminished. Nevertheless, such agreements continue to be a feature of foreign trade policy. During the last few years new agreements were concluded with Russia, Yugoslavia, Poland, Hungary, Rumania, Italy, Japan, Iraq, Australia, Burma, Ceylon, and Pakistan.

During 1955-56, India extended the validity of its earlier trade agreements with Italy, Rumania, Czechoslavakia, Austria, Indonesia, U.S.S.R., Poland, Iraq, Hungary, Norway, and Sweden for further periods and also concluded fresh agreements with Pakistan and Yugoslavia. The agreement with Pakistan enabled people residing in border areas of both the countries to continue small-scale border trade without the usual formalities. In December, 1955, arrangements were finalised with the Government of the U.S.S.R. to secure 10 lakh tons of steel during the three years beginning 1956. In return, the U.S.S.R. agreed to step up purchases from India. The agreement concluded in March 1956 with Yugoslavia provided for the import of cement, rolled steel products, diesel locomotives, rolling stock and ships

from Yugoslavia and exports from India of iron and manganese ore, coffee, mica and shellac.

3. CRITICISM OF TRADE POLICY

An official review of India's trade policy during the post-war period has been given as follows: The foregoing account makes it clear that the policy has, on the whole, lacked consistency. But consistency would be hardly an adequate criterion by which to judge commercial policy during a period of transition from war to peace-time economy. Any policy during such period could only be a half-way-house between conflicting aims. Import control has tried to make the best of a situation which simultaneously called for the pursuit of a disinflationary programme at home and the conservation of India's monetary reserve in foreign countries. Export control has been called upon to promote earning of foreign exchange and to conserve raw materials and consumers' goods for domestic purposes. Such a complex situation called for a flexible policy more or less on the lines actually adopted by the Government. The availability of a large volume of sterling balances, and the acute inflationary conditions prevailing at home ruled out in any case a policy of balanced trade. The main objective of the Government in the field of foreign trade has been to keep the trade deficit within the limits of sterling releases. Grant of import quotas has been determined not only by the availability of foreign exchange, but of indigenous supplies. To the extent that this has been done, trade policy has been an ally of fiscal policy. The main instruments of trade control have been quota, licensing and other form of quantitative restrictions including destinational control. The conventional method of control by tariff has been adopted only as a subsidiary measure.

Official review.

An impartial and fair-minded view would, however, be that greater forethought, constant vigilance and balanced judgment would have avoided the necessity for frequent changes in trade policy and minimised to a large extent, the evil effects of those hasty and ill-advised changes.

Impartial view.

4. STATE TRADING

State participation in the economic life of the people has in recent years been pressed forward along two main lines, viz., nationalisation of industries and state trading. In democratic

Formerly, no participation in trade and industry.

countries before the thirties of the present century the state took little direct part in actual production and distribution of wealth and mainly exercised certain powers of supervision and control over private traders and manufacturers. It created and maintained conditions for the smooth functioning of the self-regulating mechanism of the price system, prevented growth of monopolies, checked the adoption of restrictive practices by businessmen, and enacted and enforced equitable labour laws. The Great Depression of 1929-33, however, brought about an important change in the prevailing conception of state functions, and intervention by the State in the economic sphere began to be advocated as an anti-cyclical measure.

Change during Great Depression and World War II.

It was during the Second World War that the advocates of nationalisation and of state trading found the most favourable conditions for the support of their view-points. The War was fought on a scale which required the total mobilisation of the national resources through an elaborate system of controls and rationing. Foreign trade fell off to a trickle, and diversion of production to meet an expanding volume of war-needs brought about acute shortages in consumers' goods as well as in industrial raw materials. In such circumstances, it was felt necessary to institute strict control over both production and distribution of essential commodities. As war-caused scarcities tended to disappear and a buyers' market emerged, the case for state trading ceased to be indisputable.

Advantages claimed for State trading.

The claim that state trading in the form of centralised purchase leads to cheaper buying rests on unverified and presumably untenable grounds. Government purchases are, moreover, liable to be motivated by political considerations with the result that purchases may not always be made from the cheapest market. The Government as a buyer is not also always in a position to drive a hard bargain as is often done in purely commercial transactions in which each party takes the maximum advantage of the technical position of the market at the given moment. Buying or selling requires special training and experience, which is different from the equipment of permanent officials nurtured in the civil service tradition.

Centralised purchases are not likely to be cheaper. Even such advantages would entail a heavy price in the shape of a large sacrifice of consumers' choice. The advantages would, more-

over, depend upon the quality of the personnel which takes charge of the trading operations of the Government. Inefficiency and liability to corruption, both of which characterise commercial departments of Government, would nullify the advantages, meagre as they are.

Committee on State Trading.

In October 1949, the Government of India appointed a seven-man Committee on State Trading under the Chairmanship of Dr. Panjabrao Deshmukh. After going into various aspects of the question the Committee submitted a unanimous Report in which it approved of state trading in principle, and specially in the field of international trade. The main recommendations of the Committee were therefore, confined to the spheres of import and export trade. The Committee also recommended the setting up of a special machinery for carrying on the state trading activities of the Government. The machinery consists in a state-sponsored State Trading Corporation with an authorised capital of Rs. 10 crores and an initial capital of Rs. 2 crores. 51 per cent of the share capital of the Corporation should be owned by the Central Government and the balance was to be offered to the State Governments and private enterprise. While existing State Trading operations should be continued, and strengthened in one or two directions, further extensions would be only gradual, and would take effect after an examination of each case on its merits by the State Trading Corporation itself after it comes into existence. The immediate task of the Corporation would therefore, be quite limited in character, and it would in the first instance take over from the Central Government their commercial functions in respect of import of foodgrains, fertilisers, steel, East African cotton, and also such other functions as are necessary to implement the barter agreements concluded by the Government. The Corporation should in addition be given monopoly of the export trade in coal and short staple cotton. It would also undertake export trade in the products of cottage industries on a pioneering basis, as initially private enterprise in this line would not be paying. When a proper market has been created abroad for the products of cottage industries, the Corporation would curtail its activities and encourage private enterprise to enter the field. The Corporation should advise the Government from time to time how far State Trading should be extended or

Recommendations.

withdrawn from any commodity in the national interest. The Corporation would not be itself free to extend its activities without Government approval. The Corporation may also act, whenever required, in the capacity of either a principal or an agent for direct purchase or sale by any foreign Government in the Indian Market. At the request of Indian traders, the Corporation may also undertake on their behalf and at their risk negotiations with foreign traders.

State trade in specific commodities.

The Committee on State Trading also expressed their views about the desirability of state trading in certain specific commodities. In regard to coal, as already mentioned, the Committee recommended that state trading should continue. Their recommendations relating to some other specific commodities were as follows:—(*a*) raw jute—no state trading is recommended, but the Indian Jute Mills Association should adopt a system of centralised buying; (*b*) non-ferrous metals—The desirability of re-introducing state trading should be examined by the proposed Corporation; (*c*) Jute manufacturers, Shellac and Manganese—The question of state trading should be examined by the Corporation after it has gained some experience; (*d*) tea and mica—state trading is not recommended at the present stage and (*e*) Sugar—The question of state trading will not arise until internal production increases sufficiently to leave a surplus.

Limited to foreign trade.

It is thus evident that state trading, as envisaged by the Committee, is limited almost wholly to the sphere of foreign trade and no state trading in the sphere of internal trade is contemplated at least in the initial stage. The Committee recommended, however, that internal trade should be progressively re-organised on a co-operative basis which would obviate the necessity of expanding the scope of the activities of the Corporation, as in the opinion of the Committee, co-operation offers a form of control which, while securing all the benefits of state trading, would preserve the essentials of private enterprise.

Utility questioned.

The utility of state trading even in the limited sphere of foreign trade is, however, far from being self-evident. We have argued that state trading is not likely to be economical in any real sense. It would at least secure us an adequate supply of essential commodities at an exorbitant price or an inadequate supply at a reasonable price. Imports on private account would

fare no worse; possibly they can fulfil better the standards of quality, quantity and prices. On the export side, the sellers' market is fast disappearing, and all our principal exports, *viz.*, jute and jute manufactures, shellac, mica, etc., have to meet with heavy competition from substitutes and a Government monopoly in the export trade in these articles would weaken their position in the overseas markets still further.

Other undesirable effects.

Apart from the above objections, state trading will also have other undesirable effects. It is likely to increase the burden on the consumers as the distribution costs of state trading will be passed on to them in the shape of higher prices. Procurement and distribution of foodgrains under Government auspices during the last few years have amply demonstrated the high cost and the low level of efficiency of Government agencies in charge of commercial operations. The quality of the rationed articles supplied by the Government has also been far below the mark.

While the country suffers from inadequacy of productive capital and has every reason to husband existing resources, utilising them only for new lines of development and the creation of new wealth, state trading would involve the Government in large capital outlay only for the purpose of substituting one type of marketing machinery for another. The new Government machinery would bring the community no additional facilities, but, in all probability, poorer facilities and considerably higher cost. The machinery which is supplanted—both equipment and personnel—would simply run to waste, giving rise to problems of unemployment and idle capacity in fields far and wide.

5. INDIA AND THE INTERNATIONAL TRADE ORGANISATION

'Havana' Charter.

After the close of the Second World War, the conviction began to dawn upon leading statesmen that unless conditions of stability and wellbeing can be created and maintained throughout the world, the establishment of peaceful and friendly relations among the nations of the world would be hardly possible. Co-operation in the fields of trade and employment thus came to be regarded as the essential pre-requisite to political co-operation in the interests of peace. In February

1946, the Economic and Social Council of the United Nations passed a Resolution with a view to holding an International Conference on Trade and Employment. The object of the conference, the resolution said, would be to promote an expansion of production, exchange and consumption throughout the world and thus contribute to the creation of balanced and expanding economy. The conference met in Havana on November 27, 1947 and after deliberations lasting over four months, succeeded in drawing up a charter (known as the 'Havana' Charter) for the establishment of an International Trade Organization. The organization intended to help its members to achieve balanced economic development through mutual collaboration. The charter was signed by representatives of 54 nations at Havana on March 24, 1948. The signature amounted only to authentication of its text and the charter acquired ratification by the Governments concerned. Only two countries have so far ratified it.

The objectives of the Charter are:—

Objectives of the Charter.

(1) to increase income, demand, production, consumption and exchange of goods;

(2) to foster economic development, particularly of those countries which are still in the early stages of industrial development, and to encourage international investment;

(3) to promote equal access of all countries to markets, products and productive facilities;

(4) to reduce tariffs and other barriers to trade and to eliminate discriminatory trade treatment;

(5) to enable countries by increasing their opportunities for trade and economic development and to abstain from measures which would disrupt world trade;

(6) to facilitate through consultation and co-operation the solution of problems relating to international trade in the fields of employment, economic development, commercial policy, business practices and commodity policy.

Purpose.

The purpose underlying these objectives is the establishment of an international code of commercial and investment principles designed to guide world trade away from restrictive and discriminatory trade practices, and to promote the economic development of backward and under-developed countries.

As a member of the United Nations Conference on Trade

and Employment and a signatory to the Charter, India will have to decide whether she will accept the Charter with all its implications and thus become a full-fledged member of the I.T.O. Membership of the I.T.O. will certainly impose some restrictions on India's power to prevent the import of foreign articles or to give preferential treatment to one country, rather than another in the matter of imports of goods or capital. This may preclude India from giving effective protection to newly established indigenous industries and hamper, rather than help, economic development. On the other hand, the I.T.O. envisages mutual co-operation among members for the general economic development of the less developed areas of the world, and India may expect to benefit on that score from the membership of the organisation. Provisions for such co-operation are, however, somewhat meagre and no concrete steps for development are likely to be taken in the near future; the main emphasis of the charter is upon the removal of restrictive business practices and the free flow of world trade. Such unhampered trade may, at least in the short period, be immensely disturbing to the backward economies. Unless greater recognition is given to the unequal development of the different countries, the relatively undeveloped countries may not be encouraged to give unqualified support to the Charter. Thus, for India, it would be essential to seek clarification of the various provisions of the Charter before she can join the I.T.O. without prejudice to her plans of industrial development.

The principal objections to the Charter urged before the Fiscal Commission are as follows: **Objections.**

(*i*) It is not possible for countries in different stages of developments and with different needs to conform to a uniform commercial code.

(*ii*) Under the Charter, approach to I.T.O. is necessary under most of the clauses permitting exceptional treatment to under-developed countries. This, it is contended, is to the disadvantage of countries like India.

(*iii*) Although the Charter is concerned with both foreign trade and internal development and employment, greater emphasis has been placed on the former to the comparative neglect of the measure required for the development of under-developed countries;

(*iv*) Objection has been taken to supra-national regimentation of domestic economic policies which it is feared is certain to go against the interests of under-developed countries.

After examining these objections, the Fiscal Commission made the final recommendation that India should ratify the Charter, provided:

Recommendations.

(*i*) that the other countries of major economic importance, including the U.S.A. and U.K., have by then ratified it, and,

(*ii*) the economic conditions in the country at the time justify this course.[1]

[1] *Report of the Fiscal Commission*, 1949-50.

CHAPTER XXXI

THE BALANCE OF PAYMENTS PROBLEM

Deterioration in Balance of Payments position.

The balance of payments is a comprehensive record of economic transactions of a country with the rest of the world. The record is so prepared as to provide meaning and measure to the various components of the country's external economic transactions. Thus, it aims at presenting an account of all receipts and payments on account of goods exported, services rendered and capital received by residents of the country and goods imported, services received and capital transferred by residents of the country.

Before World War II India had actually enjoyed a surplus with the United States and this surplus had tended to expand during the years of the War. But after the cessation of the war, in common with the other countries of the world, India began to incur fairly large deficits with the dollar and hard currency areas. The net deficits in her current transactions with the dollar and hard currency areas stood at Rs. 4·84 crores in 1946, Rs. 85·80 crores in 1947 and Rs. 49·66 crores in 1948. The deficit of 1946 and the much larger one of 1947 were financed out of the Central Reserves of the Sterling area, and no quantitative restrictions were placed upon the convertibility of sterling. A serious situation was thus avoided. But from January 1948, Great Britain became unwilling to carry this responsibility any longer, and insisted on definitely limiting the convertibility of sterling. India's total current transactions revealed a net deficit of Rs. 122·5 crores in 1948. This deficit, besides the deficit with the dollar and hard currency areas, included Rs. 63·8 crores *vis-a-vis* the sterling area, and Rs. 12·1 crores *vis-a-vis* other areas. It was, however, the deficit with the dollar and hard currency areas that caused for a considerable time a great deal of concern to the Government of India.

The Finance Minister drew pointed attention to this dollar deficit in his budget speech of February 28, 1949. India could meet only a portion of her total dollar and hard currency deficit out of releases from the Central reserves of the sterling

'Dollar problem.'

area and she had to purchase dollars from the International Monetory Fund amounting to $100 million by the end of March, 1949. India, therefore, came to be faced with a shortage of dollars in the sense of an excess of dollars spent over dollars earned. This created a fundamental international payments problem which is popularly known as the 'dollar problem.' The position was aggravated by a remarkable decline in India's exports of merchandise by sea in the first half of 1949. Such exports totalled Rs. 184 crores only during this period as against Rs. 209 crores in the corresponding period of the previous year. Jute manufactures and raw jute were mainly responsible for this decline in exports. There was an over-all decline of jute manufactures from Rs. 72 crores to Rs. 58 crores, and in respect of the hard currency areas the fall was from Rs. 35 crores to Rs. 25 crores.

Causes of the balance of payments difficulties.

The main factors that were responsible for the widening gap in India's balance of payments were fundamentally the serious maladjustments in the structure of production and consumption brought about by the after-effects of the War and Partition. Large imports of foodstuffs from abroad, particularly from the Western Hemisphere, became imperative. The total cost of such imports from dollar sources alone amounted to $100 million in 1948. It represented one-third of the total cost of India's food imports and two-thirds of her currency deficit.

Position in 1948.

Superimposed upon the effects of Partition were the effects of an enormous pent-up demand for durable consumers' goods, the requirements of capital replacement, reconstruction and development and last, but not least, inflation.

Balance of Payments: 1948-49 to 1955-56.

Developments in India's balance of payments position during the eight years from 1948-49 to 1955-56 can be conveniently divided into three periods. The first from 1948-49 to 1951-52 was characterised by inflationary pressures and shortages; the second covering 1952-53 and 1953-54 was a period of mild recession in economic activity; and the third covering 1954-55 and 1955-56 was marked by accelerated economic development at home and boom conditions abroad.

In the first period covering a stretch of four years, exports rose continuously reaching a record level in 1951-52 following the devaluation in September 1949 and the Korean war boom. The level of imports, although higher than that of exports,

showed large swings from year to year as a result of a variety of factors such as shortages of food and raw materials like raw cotton and jute occasioned by the Partition and unfavourable monsoons, strong inflationary pressures inherited from World War II and the Korean War and changes in import policy. The adverse trade balance diminished rapidly during the first three years, but shot up in the last year. For the period as a whole the net current deficit amounted to Rs. 422·9 crores. To this draft on the foreign exchange reserves were added (*i*) a sizeable but diminishing outflow of funds mainly as a result of migrants' transfers and (*ii*) certain extraordinary payments to the U.K. and Pakistan at the time of independence and the Partition. The combined result was a substantial decline in foreign exchange assets.

With the Korean boom giving way to an inevitable slackening in the pace of economic activity abroad, and the onset of a recession in the U.S.A. in the summer of 1953, exports declined during the second period as compared to the first. However, the fall in imports was greater still as a result of several factors bearing in the same direction, namely, the impact on economic activity at home of the recessionary tendencies abroad, overstocking during the Korean boom, official measures to counteract inflation at home and the change-over from a liberal to a restrictive import policy during the second half of 1952. In addition, net receipts from invisibles were higher than in the earlier period. The current balance, excluding official donations, consequently showed a sizeable surplus, which together with a considerable reduced capital outflow, accounted for a substantial to the foreign exchange assets during this period.

Economic recovery in the U.S.A. coupled with rising levels of economic activity at home and abroad accounted for substantial increases in exports as well as imports during the third period. The rise in imports, following high levels of developmental expenditure in the public sector and of investment in the private sector, as well as a progressive but controlled realization of import restrictions in conformity with the needs of development, was greater than that in exports. Consequently, there was a smalll current deficit; but this was more than offset by receipts from official donations. Foreign exchange assets, however, declined slightly.

During World War II, huge government budget deficits and balance of payments surpluses resulted in a large increase in money incomes, much of which was held in terms of money or near-money assets since imported goods were not available and there was a variety of controls on spending at home. From the war period, India thus inherited a considerable pent-up demand for consumption goods as well as capital goods for replacement purposes. This inflationary potential was reinforced by substantial government budget deficits during the immediate post-war period, the Korean war boom during 1950-51 and a high level of investment, particularly in stocks during 1951-52.

The pressures on imports arising out of the inflationary potential mentioned above were further aggravated by shortages of raw cotton and raw jute arising mainly from the structural change in the Indian economy as a result of the Partition and an extreme shortage of food caused mainly by the failure of monsoons and also to some extent by the Partition.

These conditions were reflected in the high level of imports during this period, particularly of raw jute, raw cotton, food and machinery. The two years following 1949-50 recorded a progressively rising level of imports largely owing to price increases and in 1951-52 imports attained the highest level (Rs. 962·9 crores) during the whole of the post-war period.

In terms of volume, however, imports declined in the two years following 1948-49 because of the intensification of import restrictions, but in 1951-52, as a result of the disinflationary import policy followed that year they exceeded the 1948-49 level and touched the peak for any single year of the post-war period. The index of volume of imports fell from 135 during 1948-49 to 127 and 112 during the succeeding two years and rose to 146 in 1951-52 (base: 1952-53 = 100).

The value of exports during the first two years was rather low, as compared to the last two years mainly because of the substantial rise in price in the latter period. The increase in prices related particularly to jute manufactures, hides and skins, cotton manufactures, tea, metallic ores and vegetable oils. A part of this was in the nature of adjustments after the devaluation in 1949. The major part, however, was due to the Korean war boom and the price level of exports in

1951-52 was the highest reached in the post-war period. The volume of exports on the other hand reached its highest level in the post-war period in 1950-51 at 117. However, it rapidly declined to 95 in 1951-52 with the passing of the Korean war influence and Governments' policy of regulating exports as a part of the measures to disinflate the economy.

The increase in the value of exports during 1949-50 and 1950-51 was greater than that of imports partly due to a favourable change in the terms of trade after 1948-49, and as a result the trade deficit narrowed down to Rs. 89·9 crores in 1949-50 and to Rs. 3·5 crores during 1950-51 from the 1948-49 level of Rs. 283·8 crores, which was the highest in any single year during the eight year period covered by this review. During 1951-52, there was a larger increase on imports than exports, and the trade deficit again widened to Rs. 232·8 crores.

As against trade deficits totalling Rs. 610·0 crores during this period, the invisibles (including official donations) brought in Rs. 187·1 crores. These receipts showed relatively smaller changes than trade deficits which fluctuated widely from year to year.

The two years—1952-53 and 1953-54—represented a period of mild recession in economic activity both at home and abroad. With the tapering off of the Korean war boom and the consequent slackening in the pace of economic activity abroad, and the minor American recession in the summer of 1953, there was a progressive fall in the external demand for India's exports as well as in their prices. Exports, therefore, declined during this period by 3·8 per cent in terms of value and by 7·4 per cent in terms of volume as compared to the earlier period. Jute manufactures and other miscellaneous commodities were particularly responsible for this decline. The annual average level of exports during this period was Rs. 570·8 crores as compared to Rs. 593·4 crores during the previous period, and the annual average index of volume of exports fell from 108 during the previous period to 100 during this period.

Mild recession: 1952-53 to 1953-54.

Because of the external factors already referred to, the disinflationary policies of the Government, and the lower level of investment at home, there was a mild recession in economic activity at home during this period. This together with increased output—both agricultural and industrial—and a

somewhat tighter import policy resulted in a fall in annual average imports of about 18 per cent. in value and 25 per cent. in volume as compared to the previous period. The level of imports declined from Rs. 963 crores in 1951-52 to Rs. 633 crores in 1952-53 and Rs. 592 crores in the following year. Most of the fall was accounted for by the reduction in the quantum of imports from 146 in 1951-52 to 100 and 95 respectively in the next two years. The main commodities affected by the decline were raw cotton, raw jute, and foodgrains. In the case of the former two the fall in the value of imports was attributable largely to a fall in prices.

As a result of the steeper fall in imports compared to exports the trade deficit in this period was very much smaller totalling only Rs. 83·2 crores for this period inspite of a deterioration in the terms of trade and it was unevenly distributed between the two years. The receipts from net invisibles, which had shown a rising trend in the first period increased to Rs. 80·5 crores a year largely on account of increases in receipts from private donations and from miscellaneous private and government transactions, and declines in payments on account of foreign travel and investment income. As a result the current account excluding official donations showed surplus of Rs. 49·4 crores and Rs. 28·4 crores in the two years. Receipts from official donations rose from Rs. 5·3 crores in 1951-52 to Rs. 10·8 crores in 1952-53 and to Rs. 19·0 crores in the next year.

Expanding economic activity: 1954-55 to 1955-56.

During the period of 1954-55 to 1955-56, economic activity in most of the countries abroad and particularly in the industrialised countries rose progressively and the pace of development at home, as reflected in substantial amounts of governments' domestic development expenditure and higher level of investment, quickened. Further, there was a trend towards progressive trade liberalisation abroad as well as at home. World trade as well as India's trade, as a result, increased at rising rates.

The trend of decline in exports was reversed in this period and the value of exports rose at the end of the period by a little over Rs. 100 crores over that at the end of the preceding period. The increase was achieved wholly by increase in the quantum of exports which at 115 (1952-53 = 100) nearly reached the pre-

vious high level of 117 in 1950-51. The largest increases took place in respect of vegetable oils, raw cotton and tea. It should be noted, however, that the very large figure of Rs. 147·7 crores in 1954-55 was due to special circumstances such as decontrol of tea in the U.K., low level of stocks in the U.K. etc., prevailing in that year led to an increase in demand for tea and consequently a rise in tea prices.

Imports in terms of value and volume also showed a rising tendency. By 1955-56 they reached a level of Rs. 750·6 crores and in terms of volume were greater than those at the end of the previous period by 20 per cent. By this time the composition of imports changed considerably. Food imports dwindled to Rs. 17·5 crores in 1955-56 as against Rs. 72·4 crores in 1953-54 and Rs. 228·1 crores in 1951-52. Imports of raw jute also were reduced to a small fraction of imports in the first period. On the other hand, imports of producers' goods like iron and steel manufactures, machinery, vehicles, etc., showed significant increase. The terms of trade showed an irregular movement first rising to 110 from a level of 101 in 1953-54 and then falling back to 99.

The trade deficit rose progressively to Rs. 109·5 crores since imports rose faster than exports. The net receipts from invisibles remained more or less at the same level as in the preceding period. The current account excluding donations showed small but rising deficits. Official donations increased considerably in 1955-56.

Capital movements: 1948-49 to 1955-56.

During the period 1948-49 to 1955-56, the figures show a consistent outward movement of capital on private account. For the entire eight year period the total was around Rs. 92 crores, of which as much as Rs. 28·5 crores is recorded in the first year. It should be noted, however, that this figure is to some extent an over estimate because it takes account of only certain types of transactions and does not allow for foreign investments in the shape of goods and reinvestments of profits of foreign firms. Moreover, a large part of the outflow was in the nature of migrants' transfers after Independence and not ordinary movement of capital. During the past 4 years, the annual average outflow of capital on private account was of the order of Rs. 6·7 crores.

On banking account there was a total inflow of capital of Rs. 21·7 crores during the first period. A study of the detailed year to year figures shows, however, that during 1949-50 there was a fairly large outward movement amounting to Rs. 20·9 crores, a large part of which took place in the period July-December, 1949. In the next year banking account showed an inflow of exactly the amount. However, this was due entirely to the very large inflow of funds of the order of Rs. 22·6 crores which took place in January-March, 1951 and which continued during most of 1951-52. In these two years, therefore, there was a net inflow of funds of the order of Rs. 40·3 crores. However there was substantial outward movement of banking funds in 1952-53. During the six months, April to September, the outflow amounted to as much as Rs. 43·6 crores. Thereafter the banking account showed more or less a normal pattern although in the quarter January-March, 1956 there was a rather large inflow of funds amounting to Rs. 25 crores.

The receipts from official loans amounted to Rs. 84·6 crores in the first period, the U.S. Wheat Loans accounting for Rs. 58·6 crores and loans from the I.B.R.D. for another Rs. 21·4 crores. There was also a lump sum repayment (before maturity) of Rs. 4·6 crores by Thailand of a loan granted to it by India earlier. During the second period under review the balance of Rs. 32 crores of the U.S. Wheat Loans was drawn upon while the I.B.R.D. extended another Rs. 4·7 crores. In the course of the last two years, an additional Rs. 4·1 crores was received from the World Bank. Thus, over the whole period, the total net receipts by way of loans in the official sector aggregated Rs. 125·4 crores of which as much as Rs. 121 crores (Rs. 90·6 crores of the U.S. Wheat Loan and Rs. 30·2 crores received from the I.B.R.D.) helped to augment the resources for financing the First Five Year Plan.

Amortization payments exceeded the receipts by about Rs. 6 crores both in the first and second periods partly because the disbursements of pensions slightly exceeded the withdrawals from the pension annuities and partly because of repayment of the I.B.R.D. loans. In the years 1954-55 and 1955-56, however, amortization receipts were much larger than the corresponding payments mainly on account of the repayment of debt by

Burma (Rs. 15·4 crores). The other official long-term transactions were insignificant in the last two periods but in the first period they resulted in a net outflow of Rs. 405·1 crores—the bulk of which was in 1948-49—arising from the extraordinary transactions like the transfers to Pakistan of its share of the assets of the Reserve Bank (Rs. 213·7 crores) and the purchase of pensions annuities (Rs. 224 crores).

The changes in the position on short-term account which could be broadly taken as an indicator of the movements in the country's exchange reserves showed worsening of nearly Rs. 860 crores during the first period reflecting the impact of heavy current deficits and the extraordinary transfers to which a reference has been made earlier. In this period, the country had not only to draw heavily on its reserves but also to borrow both from the U.S. Government (Rs. 58·6 crores) and the I.M.F. (Rs. 23·9 crores); this was in addition to Rs. 9·9 crores borrowed in 1947-48 from the I.M.F. In the subsequent two periods there was some addition to the reserves despite a repurchase of Indian currency of Rs. 17·2 crores and Rs. 24·3 crores from the I.M.F.

It might be useful at this stage to recapitulate briefly the movements in the balance of payments and the nature of the financing during the three periods. The first four years witnessed the largest deficits. Excluding official donations, the current deficit during this period amounted to Rs. 430·3 crores. Errors and omissions and private capital movements indicated outflows respectively of Rs. 43·7 crores and Rs. 65·4 crores. On top of this, there were the large payments to the U.K. and Pakistan, the former in connection with the settlement for pensions, and the latter mainly on account of the transfer of the portion of undivided India's assets to Pakistan. These two payments together with official amortization and other long-term transactions, totalled Rs. 412·4 crores. Receipts from official donations and official loans, provided relief only to the extent of Rs. 92·0 crores. The draft on the official assets and other sources including recourse to the I.M.F., therefore, amounted to Rs. 859·8 crores.

By contrast to the first four years the balance of payments disclosed a current surplus, excluding official donations, amounting to Rs. 77·8 crores during the next two years. Allowing for

outflow of Rs. 40·2 crores under errors and omissions and private capital and also taking credit for official donations and loans of Rs. 66·5 crores there was a net accumulation of foreign assets. The last two years witnessed a reversal of the trends. There was a current deficit of Rs. 34·9 crores during this period. Errors and omissions and net private capital transactions showed an outflow of Rs. 27·3 crores but these were more than offset by receipts of official donations and official loans, there being in fact a slight increase in the net assets.

For the eight-year period as a whole the current deficit excluding official donations amounted to Rs. 387·4 crores. This deficit would rise to Rs. 471·9 crores if errors and omissions are also merged with this total. In addition, there was a private capital-outflow of Rs. 92·1 crores and official long-term transactions (excluding loans) have risen to a net payment of Rs. 405 crores largely on account of partition settlement with Pakistan and purchase of pensions annuities from the U.K. The total outgo on current account, errors and omissions, private capital and official long-term transactions aggregated to Rs. 969·0 crores. As against this the combined receipts from official donations and official loans amounted to Rs. 223·4 crores. The net deficit requiring accommodation from official assets and other sources thus amounted to Rs. 745·6 crores.

India's foreign exchange assets declined during the eight-year period by Rs. 720·7 crores. Over and above this, there was a net increase in foreign exchange liabilities of the country to the extent of Rs. 22·0 crores.

The regional pattern of India's balance of payments during the period under review has undergone substantial changes, particularly in respect of the dollar and the OEEC areas. In the beginning, trade with the OEEC countries was restricted owing to dislocation caused by the war; the dollar area, on the other hand, figured prominently in India's trade. As these dislocations gradually disappeared India's trade with the OEEC countries, which in the pre-war period were her traditional markets and suppliers for certain goods, went up. This increase was mostly at the cost of the shares of the dollar and the rest of the non-sterling areas. The details of changes in respect of the shares of the different areas in India's trade are described below.

The share of the dollar area in India's total exports fell from 23·3 per cent during the first period to 22·7 per cent in the second and still lower to 18·9 per cent in the third; while its share in imports declined even more sharply from 24·8 per cent during the first period to 24·0 per cent and 16·9 per cent, respectively, during the two succeeding periods. This decline in the trade with the dollar area affected most of the principal commodities which enter into India's foreign trade. As a result, the current balance, excluding official donations, with the dollar area showed progressive improvement during the three periods; the annual average current deficit, excluding official donations, declined from Rs. 48·7 crores during the first period to Rs. 13·8 crores during the second, and was replaced by a small surplus of Rs. 0·8 crore in the third.

With the OEEC countries, however, there was an opposite trend and their share in India's trade went up, mainly due to rising imports. The share of imports went up from 11·0 per cent in 1951-52 to 15·0 per cent and 20·2 per cent during the second and the third period, respectively, mainly on account of increased imports of capital goods. The share of exports, however, remained more or less constant at 10 per cent. The current deficit with the OEEC countries, therefore, widened from Rs. 34·8 crores during 1951-52 to an annual average deficit of Rs. 38·9 crores in the second period and further to Rs. 79·9 crores in the third period.

The sterling area's share in India's trade declined during the second period as compared to the first but increased again during the third, reaching more or less the level in the first period. The share of imports declined from 50·0 per cent of the total during the first period to 47·7 per cent during the second, while that of exports declined from 55·4 per cent to 52·3 per cent with the result that the annual average current surplus, excluding official donations, with the sterling area went up sharply from Rs. 10·1 crores during the first period to Rs. 80·6 crores during the second. During the third peroid, however, there was a greater increase in the sterling area's share in imports than in exports, the former rising to 49·8 per cent of the total and the latter to 54·2 per cent. Consequently, the annual average current surplus, excluding official donations, declined during the third period to Rs. 48·3 crores.

The share of the rest of the non-sterling countries in India's imports declined progressively from 15·6 per cent of the total during 1951-52 to 13·3 per cent and 13·1 per cent during the second and the third periods, while their share in exports increased progressively from 11·7 per cent during 1951-52 to 15·5 per cent during the second period and rose again to 16·1 per cent during the third. The current balance, therefore, changed from a deficit of Rs. 75·7 crores during 1951-52 to annual average surpluses of Rs. 11·0 crores and Rs. 13·4 crores, respectively, during the later two periods.[1]

1956-57. The impact of the rising tempo of developmental activity in the Indian economy during the year 1956-57 was felt most severely on balance of payments. Throughout the greater part of the First Plan there had been a recurring current account surplus in the balance of payments ; this was sharply reversed during 1956-57 with the emergence of an overall current account deficit of Rs. 292·5 crores and a draft of Rs. 219 crores on the country's foreign exchange reserves. This was mainly due to the large increase in imports, particularly of capital goods, resulting from a sharp increase in the rate of investment. The level of investment in the public sector was appreciably higher than before and was accompanied by a general feeling of optimism and consequently larger investment also in the private sector. The foreign counterpart of the investment expeiditure was met partly through long-term Government borrowing and foreign grants but largely through the drawing down of reserves. Sterling balances fell by Rs. 219 crores during the fiscal year 1956-57, from Rs. 748 crores to Rs. 529 crores. In addition to this, a credit of Rs. 55 crores (Rs. 61 crores obtained in March 1957 less Rs. 6 cores repaid in April 1956) was obtained from the International Monetary Fund and fully utilised during the period.[2]

Defects in the balance of payments position. Despite these improvements, the present outlook on the balance of payments position is still somewhat hazy. India has had a deficit balance during five out of eight years since the end of the Second World War, and her total deficits have

[1] *India's Balance of Payments*, 1948-49—1955-56, published by the Reserve Bank of India, January, 1957.

[2] *Report on Currency and Finance for 1956-57*, published by the Reserve Bank of India.

exceeded much her total surpluses. Nothing can be predicted of the future with confidence on the basis of a year's or even two years' experience. It seems that the underlying position even now is one of instability rather than of stability. So long as the country has to depend upon import control and foreign assistance for maintaining a balanced position, or the least unbalanced position, the basic position would continue to remain uncertain. Moreover, nobody can be dogmatic about the future trend of food imports. Internal production of food crops even now depends largely upon the vagaries of the monsoon, and food holds the key to the balance of payments position. The adverse effects of food imports upon the balance of payments position has been sought to be mitigated in recent years by a diversion of imports from the hard currency to the soft currency areas. But if imports have again to be large, our choice of the markets we buy from cannot be very wide.

The post-War balance of payments problem is also more complicated than the pre-War problems as a result of the division of the trading world into different currency areas. Where previously an over-all balance would have sufficed, we require now a balance in compartments according to currency areas. This additional complication, which hampers world trade, will be removed only when the world returns to the system of convertible currencies. **Comment.**

CHAPTER XXXII

NATIONAL WEALTH AND INCOME

Wants and their satisfaction give a central theme to all economic life. The income which is distributed arises out of production. This income is the spring of production in an eternal spiral in which production and distribution are inextricably linked. Income produces demand which gives cause for production which in turn produces income which goes again through a process which produces itself with additions or subtractions depending on the level of advance to which the elements of the economic system are geared. These elements are the volume of the National Dividend and the mechanism in saving and investment, which goes to make it. When we know the volume of the National Dividend, its distribution and the rate of progress in the economic determinants of saving and investment of an economic system, we know almost all that is vitally important in its wider life.

The wealth of a country is the accumulation of the savings from its annual income. The national income is derived from industry and trade as well as agriculture. Both categories of production are important, but in the more advanced countries the greater part of the income is derived from industry and commerce than from agriculture.

No reliable statistics.

No reliable statistics relating to the national wealth or the national income of India have, until recently, been available. The average farm production per head was calculated at Rs. 40 about seventy-five years ago. In the early eighties of the last century Sir Evelyn Baring (afterwards Lord Cromer) estimated the average *per capita* income at Rs. 27 per head per year; the Famine Commission of 1880 put it at £2. In 1903, Sir Robert Giffen calculated the *per capita* income at about £2 or Rs. 30 per year, and this figure was accepted by the Government of Lord Curzon. But William Digby and Dadabhai Naoroji put it at an even lower figure. The data put forward from time to time for the calculation of the national income were not quite dependable. Later enquiries

Estimates by Robert Giffen.

Lord Curzon William Digby Dadabhai Naroji.

into the question of national income have given widely divergent results. The department of Agriculture in Madras calculated the average income in the presidency at Rs. 100 in 1921. In Bombay the net *per capita* annual income was estimated at Rs. 100 for urban localities and Rs. 75 for rural areas. In 1922, Findlay Shirras, in his book on *Indian Finance*, put the average income per head as high as Rs. 116. There were other authorities who at that time were inclined to bring the figure down to Rs. 60. The average income fell heavily during the economic depression of 1929-33. According to Mr. Shirras the *per capita* income came down from Rs. 126 in 1924 to Rs. 58 in 1932. Mr. V. K. R. V. Rao's estimate was that the income of British India for 1931-32 amounted to Rs. 16,891 millions and the *per capita* income amounted to Rs. 62. Sir M. Visvesvaraya estimated the average income per head in 1936 to be Rs. 55 per year.

Enquiries in Madras.

Bombay.

Findlay Shirras.

V. K. R. V. Rao.

The national income of the Indian Union in 1946-47 as published by the Economic Adviser to the Government of India gave in broad outline the net national income produced within the country at factory cost. Though there was an increase in the national income from Rs. 204 *per capita* in 1945-46 to Rs. 228 in 1946-47, the increase was not real as allowance had to be made for a rise in the general level of prices by about 12·5 per cent. According to the Economic Adviser, the total net national income in 1946-47 stood at Rs. 55,800 million. This figure was for the whole of the Indian Union as constituted after Partition and did not include the States merged into them subsequently. There was also an increase under the head 'Agriculture, Animal husbandry, Forestry and Mining' from Rs. 20,090 million in 1945-46 to Rs. 23,980 million in 1946-47. Agriculture alone fetched a net income of Rs. 17,700 million as compared with Rs. 14,950 million in the previous year. The income of the urban area worked out to Rs. 21,700 million for the working population of 18·8 million as compared with Rs. 34,830 million in rural areas for a working population of 87·1 million. Thus the income per earner for urban and rural populations for the year 1946-47 was estimated at Rs. 1,121 and Rs. 401 respectively.

India's National income. 1946-47.

Government estimates.

Increase under agriculture etc.

Urban and rural areas.

Provisional estimates for the year 1948-49 indicated that the national income was about Rs. 69,680 million and the *per capita*

income Rs. 272. Judging from the number of gainfully employed persons the national income of the Indian States was estimated at one-third of that of the Indian Union Provinces.[1]

Eastern Economist's estimate.

The Eastern Economist calculated the total income of India (including Pakistan) for the year 1939-40 to be Rs. 19,343 millions and for the year 1947-48 (India only) to be Rs. 39,421 millions. It estimated the *per capita* income for 1939-40 at Rs. 67 and for 1947-48 at Rs. 160 after taking the cost of living into consideration. The Eastern Economist observed: "These figures do not describe what is convenient to call the wealth of India although they describe something of its reverse which is its poverty." It added: "There is a superstition—it would do it too much honour to call it anything else—that our people—particularly agriculturists—are better clothed and fed than they were before the war. The figures given above will show that this cannot be the case. Indian people are getting poorer and all the sacrifices made by the war have given us the Sterling Balances but little positive fruit in any other direction."

Collin Clark's view.

As regards the national incomes of the industrially advanced countries, Dr. Collin Clark gave figures which were many times higher than those of India. He said: "Most unexpected is the extent to which the four great industrial countries predominate in the world's economics. They enjoy not far short of half of the world's entire income of goods and services, though only containing 300 millions of population; in conjunction with the four smaller creditor countries, they enjoy more than half of the world's entire income. The U.S.S.R. and Japan are both unique and each has a substantial fraction of the world's income. In China and British India, though average real incomes per head are very low, the populations are so great that the aggregate incomes are substantial."[2] Since World War II

[1] *Indian Trade Bulletin*, July, 1950.

[2] Collin Clark gave the following figures:

WORLD INCOME, 1925-34.

		Milliards of I.U.
The four Great Powers:		
U.S.A.	65·6	... 119·0
Great Britain	21·9	
Germany and Austria ...	19·0	
France	12·5	

considerable changes have taken place in the incomes of different countries, but India's income has not increased.

National Income Investigation Committee, 1949.

A National Income Investigation Committee was appointed by the Government of India in August, 1949 with Professor Dr. P. C. Mahalanobis, D.Sc., F.R.S. as Chairman and Professor Dr. R. Gadgil and Dr. V. K. R. Rao as members.

Terms of reference.

The terms of reference to the Committee were: to prepare a Report on national income and related estimates, to suggest measures for improving the quality of the available data and for the collection of further essential statistics to recommend ways and means of promoting research in the field of national income.

First Report in May, 1951.

The First Report of this Committee was presented to Parliament on May 5, 1951. This was the first scientific attempt made on a comprehensive scale under the auspices of the Government for estimating the national income of the country. The Committee observed that a correct estimate of the national income and its distribution was essential in order to enable the

Other creditor countries:	
Canada, Holland, Switzerland, Ireland	10·5
Other industrial European countries:	
Sweden, Denmark, Norway, Iceland, Belgium, Spain, Czechoslovakia	13·3
Wealthy debtor countries:	
Australia, Newzealand, Argentine, Uruguay, Chile, Brazil ...	13·8
Poorer European countries:	
Yugoslavia, Greece, Finland, Hungary, Poland, Latvia, Italy, Estonia, Portugal, Roumania, Lithuania, Albania ...	16·6
U.S.S.R.	17·5
Japan	8·1
Other partially developed countries:	
Egypt, Algeria, Tunis, Morocco, South Africa, Turkey, Palestine, Syria, Cyprus, Philippines, Hawaii, rest of Central and South America	7·3
China	22·7
British India	15·0
Dutch Indies	2·6
Rest of Asia, Africa and Oceania	8·0
World Total ...	254·4

The Conditions of Economic Progress by Colin Clark, pp. 55-57.

Government to frame their economic policy on proper lines. The Committee, after emphasising the great difficulties which had to be encountered in the collection of accurate data and the forming of correct estimates, placed the national income of India for the year 1948-49 at Rs. 8,710 crores and the per capita income at Rs. 255. Of the total estimated national production of Rs. 8,710 crores, the consumer expenditure on food, the Committee observed, "probably amounted to Rs. 4,600 crores or nearly 53 per cent of the national income." "This high proportion," it added, "shows, in a general way, the underdeveloped character of our economy."

National Income Committee's Final Report, 1954.

The National Income Committee submitted its Final Report in February, 1954 to the Government of India. The Committee's first Report had considered various general questions on national income and presented estimates of national income for 1948-49. The final Report drew some broad conclusions about the estimates presented. The most important finding was perhaps the stability of the *per capita* real income during the three years 1948-49 to 1950-51. As regards the sectoral estimates, the industrial enterprises as a whole show stagnation during the period, whlie Government activities including Government enterprises show a marked increase. The Report estimated the national income of India at Rs. 8,650 crores for 1948-49 (revised), Rs. 9,010 crores for 1949-50 and Rs. 9,530 crores for 1950-51. The *per capita* income was placed at Rs. 265·2 for 1950-51 as compared with Rs. 246·9 for 1948-49.

National Income estimates for 1948-49, 1949-50 and 1950-51.

The Report indicated a steady rise in income generated in agriculture and a relative stagnation in industries, as also in some other sectors. This tendency was, however, more apparent than real, as could be seen if appropriate adjustments were made for the price changes.

The Report estimated that about 72 per cent of the working population was engaged in agriculture and allied activities, about 11 per cent in mining and industries and the remaining 17 per cent in the tertiary enterprises. The Report also gave an idea of the role played by Government in the national economy. The net output of Government enterprises and administration had risen by 12 per cent between 1948-49 and 1950-51 as against a rise of 10 per cent in the net output of the private sector.

In addition to the presentation of these estimates, the Report also described in detail the method of estimation employed, reviewed the gaps in the existing statistics, made recommendations for the improvement of the quality of the available data and for the collection of essential statistics required for estimation of national income and discussed the ways and means of improving national research in this field.[1]

The work of the National Income Committee for estimating national income in all its aspects has been taken over by the National Income Unit of the Government of India. The latest publication issued by the Unit is the White Paper on "National Income 1948-49 to 1954-55". The National Income as estimated by the Unit has increased from Rs. 8,650 crores in 1948-49 to Rs. 9,910 crores in 1954-55 at current prices. The *per capita* income for the seven years from 1948-49 to 1954-55 was computed at Rs. 247, Rs. 254, Rs. 265, Rs. 275, Rs. 267, Rs. 281 and Rs. 262. The real national income (at 1952-53 prices) was assumed to rise from Rs. 9,110 crores in 1950-51 to Rs. 10,800 crores in 1955-56, and the real *per capita* income from Rs. 255 to Rs. 280. This means an increase of 18% in national income in 1951-56 or a little over 3% per annum and in the *per capita* income of 10% or a little less than 2% per annum.

The above rate of increase in the economic growth of India compares unfavourably with that of other countries of the world. This point has been clearly indicated from the figures of the annual rates of increase in the gross national product or national income in 1950-55 for certain countries which are: the U.K. 3-4%, Sweden 3-5%, West Germany 8-11%, France 5%, Italy 4-7%, Yugoslavia 10-11%, U.S.S.R. 10%, Bulgaria 13½%, Czechoslovakia 9½%, Hungary 8½%, Poland 11%, Rumania 13% and East Germany 10%.

In order to accelerate the pace of economic progress of India an increase of 25% in national income in 1956-61 or about 5% per annum has been envisaged in the Second Five Year Plan. The *per capita* income is to rise by 18% or about 3½% per annum in the same period. How far this anticipation will be realised, it is too early now to forecast.

[1] *The Reserve Bank of India Bulletin*, March, 1954.

NATIONAL INCOME BY INDUSTRIAL ORIGIN

(Rs. crores at 1952-53 prices)

	1950-51	1955-56	1960-61	Percentage Increase 1951-56	Percentage During 1956-61
Agriculture and allied pursuits	4,450	5,230	6,170	18	18
Mining	80	95	150	19	58
Factory establishments ...	590	840	1,380	43	64
Small enterprises ...	740	840	1,085	14	30
Construction	180	220	295	22	34
Commerce, transport and Communication ...	1,650	1,875	2,300	14	23
Professions and Service including Government Administration ...	1,420	1,700	2,100	20	23

Source—Economic Survey of Europe in 1955, U. N.

The figures for National Income by distributive shares in India are not available from the official source. But an approximate estimate by the "Eastern Economist" indicates that about 80% of National Income of the order of Rs. 7,592 crores was disbursed as 'wages and salaries' and 6 to 7% was recorded as corporate profits in 1948-52. The allocation of gross national expenditure, according to the "Eastern Economist" was 85% to 90% for personal consumption and 6% for domestic capital formation.

Though personal consumption expenditure has not so far been available from official source for India as a whole, the gross and net domestic capital formation has recently been officially estimated for 6 years from 1948-49 to 1953-54. The proportion of net capital formation to national income has been shown as 5·2% for 1948-49 rising to 6·7% for 1951-52 and 1952-53 but declining slightly to 6·4% in 1953-54. The total gross domestic fixed capital formation for both the public and private sectors of the economy advanced from Rs. 783 crores in 1948-49 to Rs. 1,135 crores in 1953-54 and the net capital formation from Rs. 446 crores to Rs. 719 crores. The shares of the Government in gross and net capital formation were Rs. 200 crores and Rs. 154 crores, respectively in 1948-49 ; Rs. 349 crores and Rs. 277

[1] The rates of increase in all Soviet dominated countries have been over-estimated.

crores respectively in 1953-54. The net urban investment on Construction was Rs. 39 crores in 1948-49 and Rs. 123 crores in 1953-54 whereas the net rural housing investment was only Rs. 52 crores and Rs. 81 crores respectively.

ESTIMATES OF NET DOMESTIC FIXED CAPITAL FORMATION

(Rs. crores)

	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54
PRIVATE:						
Construction—						
Urban	39	57	97	103	111	123
Rural	52	56	64	68	64	81
Improvement of lands and construction of irrigation works ...	61	66	72	74	72	83
Agricultural and other implements and small enterprises ...	45	48	51	67	67	65
Mining and manufacturing enterprises ...	60	80	57	82	63	61
Transport ...	35	25	49	67	64	29
Total Private ...	292	332	390	461	441	443
Government ...	154	192	199	211	218	277
TOTAL INVESTMENT ...	446	524	589	672	659	719

The net incomes by regions[1] were as follows:— Regional income.

North India Rs. 1,644 crores in 1950-51, Rs. 1,786 crores in 1955-56, East India Rs. 2,133 crores in 1950-51 and Rs. 2,454 crores in 1955-56, South India Rs. 1,845 crores in 1950-51 and Rs. 2,145 crores in 1955-56, West India Rs. 1,279 crores in 1950-51 and Rs. 1,549 crores in 1955-56, Central India Rs. 1,275 crores in 1950-51 and Rs. 1,553 crores in 1955-56; and North-West India Rs. 979 crores in 1950-51 and Rs. 1,219 crores in 1955-56.

The *per capita* regional incomes in 1950-51 and 1955-56 were as follows:—

North India Rs. 260 and Rs. 270, East India Rs. 238 and Rs. 257, South India Rs. 244 and Rs. 263, West India Rs. 314 and Rs. 342, Central India Rs. 245 and Rs. 283; and North-West India Rs. 279 and Rs. 308.[2]

[1] *North India*—U. P.; *East India*—Bihar, Orissa, West Bengal, Assam, Manipur and Tripura; *South India*—Madras, Mysore, Travancore-Cochin and Coorg; *West India*—Bombay, Saurashtra and Kutch; *Central India*—M.P., Madhya Bharat, Hyderabad, Bhopal and Vindhya Pradesh; *North-West India*—Rajasthan, Punjab, PEPSU, Jammu and Kashmir, Ajmer, Delhi and Himachal Pradesh.

[2] Quarterly Economic Report of the *Indian Institute of Public Opinion*, No. 10.

CHAPTER XXXIII

ECONOMIC PLANNING

1. EARLY IDEAS

THROUGHOUT the nineteenth century, it was the prevailing idea in many countries, that the development of industries should be the function of individuals, and that the state should not attempt in any way to interfere in any aspect of industry and commerce. The World War of 1914-18, however, marked the beginning of the end of *laissez faire,* and in the post-war years there was some amount of control and regulation of industries in every country. It is now recognised on all hands that the free play of private interests does not secure results that are most desirable from the social point of view. When private individuals are left alone to decide how they will utilise the resources available, wastage of materials on one side and lop-sided development on the other are inevitable. Besides, trade cycles are essentially connected with the injudicious course of investment and monetary policy which a competitive economy entails. Therefore, the need for control of the utilisation of the resources of the community and of the development of industries is beyond question at the present moment.

The post-war depression and the need for planning.

Economic planning, however, denotes more than mere control and regulation. It implies a calculated effort on the part of the state to secure within a given period of time the maximum of well-being for the members of the community by the most economic allocation and utilisation of the available amount of resources. It is this sort of economic programme that was undertaken by Soviet Russia in 1928. In the U.S.A., the Recovery Plan of President Roosevelt also provided an example of a deliberate attempt to neutralise the effects of the depression by industrial regulations and agricultural adjustments.

Planning goes further than control.

The Great Depression of 1929-33 emphasised the need for a planned economy to prevent the recurrence of such situations. In a country like India where the entire economic structure is in a non-progressive state, and the average income and output are inordinately low, the necessity of planning is

Great Depression 1929-33.

greater than in other countries. In the previous chapters, the defects and the shortcomings of the economic life of India have been analysed. If these defects have to be remedied, a well-defined programme of action is absolutely essential.

Some amount of planning before World War II.

In a sense, some amount of planning was operative in India before the starting of the Five-Year Plan. Discriminating protection, restrictions on imports and exports, debt-legislation, regulation of banking, and labour laws were all different aspects of economic planning. But these programmes were adopted without any definite or ultimate aim in view, and as a result they did not form parts of an organic whole. The administration of these was in the hands of different bodies, and thus no unified policy was practicable.

Lack of statistics and information.

A full programme of planning involves a marshalling of all available means for the attainment, within a time-limit, of some predetermined end. On the one hand, therefore, it is necessary to collect full information about the resources available within the country and about the possibility or otherwise of increasing the supply of resources immediately. In this respect, we are at a disadvantage, because adequate statistics of our agricultural products, minerals, power-resources, capital equipments and the like are lacking. Dr. A. L. Bowley and Mr. D. H. Robertson, who were appointed by the Government of India in 1953 to suggest a scheme for an economic census of India, emphasised the need of reorganising the statistical service with a view to securing accurate information regarding national income and production. No scheme of planning can be launched unless a comprehensive knowledge of all the means of production available in the country has been acquired.

Ends of economic planning.

The other important pre-requisite of planning is that the authority in charge of it should have in view a well-defined end which is to be attained within the time available. It is worthy of note that, in the midst of countless suggestions of a superficial nature, there have been a few attempts by discerning thinkers to put before the country some definite ideas regarding the practicable lines of economic planning. Sir M. Visvesvarya, in 1934, for example, studied carefully the entire problem of planning, and suggested a ten-year programme for the whole of India. The net value of the yearly production from industries was to increase five-fold in ten years, and during the same period

the population supported by agriculture was to diminish by 20 per cent.[1]

Special difficulties in India.

In India, special difficulties in the way of economic planning are many. Planning involves a considerable amount of control over the economic and social life of the citizens. India is a democratic country and it is not easy to persuade the people to accept a programme which restricts their freedom of enterprise in many ways. Another difficulty arises from the fact that large powers are vested in the State Governments under the New Constitution. A successful plan involves unified action by a central authority, and in this respect, the existence of autonomous States may make the administration of an All-India plan difficult.

National Planning Committee, 1938.

A new spurt to the discussions regarding economic planning was given in 1938 by the Indian National Congress under the presidentship of Sri Subhas Chandra Bose, which appointed a National Planning Committee under the chairmanship of Pandit Jawaharlal Nehru, to enquire into the possibilities of a planned economy in India and to suggest practicable schemes for securing the desired end. The Committee commenced work soon after its appointment and it issued, as a first step, a questionnaire to the Provincial Governments, Indian States, Chambers of Commerce, labour unions, and organisations of agricultural interests. World War II, however, upset the original arrangements and it was not until 1946 that actual work was commenced in right earnest.

2. PLANNING DURING AND AFTER WORLD WAR II

Before World War II there was no planned action in regard to the economy of India as a whole. Economic problems used to be dealt with compartmentally and little attempt was made to connect them in the context of a national policy. The various *ad hoc* committees and commissions which reported from time to time, such as the Industrial Commission of 1916-18, the Fiscal Commission of 1921-22, the Agricultural Commission of 1926, etc., did, no doubt, much valuable preliminary work by way of investigation and research on problems affecting particular sectors of India's economy, but none

Ad hoc investigation.

[1] Visvesvaraya, *Planned Economy for India*, Bangalore, 1934, chap. xv.

of those bodies offered an integrated scheme of development of the entire economy.

Congress Committee on Planning.

The essence of economic planning lies in the formulation of an integrated programme of development for the entire country in all the sectors of her economy. It involves a simultaneous advances on all the fronts of the economic system for attaining certain well-defined aims by a fixed date. In the view of the Congress Committee's report, planning was to be a "technical co-ordination by disinterested experts, of consumption, production, investment, trade and income distribution in accordance with social objectives set by organs, representative of the nation".

Slogans.

The Second World War quickened thoughts on economic planning all over the world. Its staggering destruction of physical capital, toll of human life and grave unsettlement of economic systems everywhere set men a-thinking. The demand for a more equitable economic order assuring better living conditions for the common man was voiced from every part of the world. While the slogans of the First World War were mainly political, those of the Second World War were essentially economic, such as 'freedom from hunger', 'full employment', 'war on disease', 'a living wage for all', etc.

Reconstruction Committees set up by Government of India.

In June, 1941, the Government of India set up a number of Reconstruction Committees to deal with the various aspects of post-war reconstruction. In March, 1943, a Reconstruction Committee of the Executive Council, with the Viceroy as President, was set up, together with a number of Policy Committees corresponding to the earlier Reconstruction Committees. In addition to the Policy Committees, a Consultative Committee of Economists, presided over by the Commerce Member, was also appointed, to deal with the economic aspects of reconstruction. All this resulted in a large amount of preparatory work being completed, including the collection of data so essential for any co-ordinated planning. Most of the Provincial and State Governments also constituted reconstruction committees of their own on the lines of the Central Committee.

The first Report of the Reconstruction Committee of Council was published in March, 1944, and the Second Report appeared

New planning department under Sir A. Dalal.

a few months later. In July, 1944, the Government of India created a new Department of Planning and Development with Sir Ardeshir Dalal, one of the signatories to the Bombay Plan, as Member-in-charge. The new Department of the Government of India issued a statement on the Industrial Policy of the Government on the 21st April, 1945.

Private Plans: Bombay Plan.

Planning during the War was not, however, confined to Government Departments alone. The Bombay Plan, drafted by a group of eight economists and industrialists including Sri Prushotamdas Thakurdas, Sri J. R. D. Tata, Sri A. D. Shroff, Sri G. D. Birla, Sir Ardeshir Dalal, Sir Shri Ram and Dr. John Mathai, appeared in January, 1944. Among other non-official plans, mention may be made of the People's Plan drafted by Sri M. N. Roy on behalf of the Post-war Reconstruction Committee of the Indian Federation of Labour and of the Gandhian Plan drafted by Sri S. N. Agarwal, Principal of the Wardha College of Commerce. Sir M. Visvesvaraya, whose pioneer work on planning had first appeared in 1934, published a brochure on Reconstruction in Post-war India in September, 1944, in which he gave his general approval to the proposals contained in the Bombay Plan.

People's Plan.

Gandhian Plan.

Sir Visvesvaraya Plan.

Objectives of Planning.

In fully developed countries like the U.K., the U.S.A., etc., objectives of planning are stated to be the maintenance of full employment, or the raising of effective demand to control trade cycles or other objectives of a similar import. According to the National Planning Committee of India, planning had not only to be considered from the point of view of Economics and the raising of the standard of living but it must also include cultural and spiritual values and the human side of life.

Bombay Plan.

The National Planning Committee recommended a doubling or trebling of the standard of living and of production during the following ten years. According to the authors of the Bombay Plan, the ultimate object of planning in India should be an increase in the volume of India's economic production to the fullest extent to which its natural resources would allow. For an immediate objective they recommended a doubling of the *per capita* income within a period of fifteen years of the inauguration of the Plan. The aggregate amount of income required to meet the barest requirements of human life, according to the Bombay Plan, would be Rs. 2,900 crores.

The Gandhian Plan of Mr. Agarwal aimed at a four-fold increase, within a period of ten years, in the *per capita* income in order to secure all the basic necessaries of life and a minimum standard of comfort. Gandhian Plan.

For the effective discharge of the functions entrusted to the Centre, the Board recommended the setting up of a single, compact authoritative but non-political Commission consisting of not less than three and not more than five members, with all the necessary secretarial facilities, which should be responsible directly to the Cabinet or to a committee of the Cabinet. Planning Commission: its structure.

From the nature of the functions assigned to the Central Planning Commission it was evident that their decisions were to be mainly advisory and final decisions would rest with the Government.

The Board also remommended that, in addition to the Planning Commission, there should be a Consultative Body of 25 to 30 members. Besides members of the Commission, the Consultative Committee were to consist of representatives of the Provinces, and the States, and also of Agriculture, Industry, Commerce, Labour, Science and other interests. Consultative Committee.

3. NATIONAL PLANNING COMMISSION

The setting up of a National Planning Commission for India under the Chairmanship of the Prime Minister, to co-ordinate Central and State Plans, to lay down priorities and fix targets, was announced by Dr. John Mathai on February 28, 1950, while delivering his Budget speech for 1950-51. The Commission met for the first time on March 28, 1950, and drafted a Five-year Development Plan for India. National Planning Commission set up in 1950.

The Commission also set up a consultative machinery to assist it in the discharge of its functions. This was in the form of an Advisory Board which consisted of representatives in the field of industry, commerce and labour and in the socio-economic and technological fields. To secure the association of officials and non-officials who had special knowledge and experience in subjects in which the Planning Commission was interested, panels of experts were constituted for obtaining their constant help and advice. The main headings under which panels were set up were: Industry; Trade and Communi- Advisory Board. Panels of Experts to help Planning Commission.

cations; Food and Agriculture; Development of Natural Resources; and Employment and Social Services.

Opposition to Planning by eminent economists.

Plans are now being adopted not only in totalitarian countries, but also in democracies. There are, however, some sincere anti-planners like Prof. Hayek or Prof. Jewkes who point out many serious objections to planning. The three minimum preconditions of planning are that the civil service must be reasonably efficient and honest, citizens should be reasonably ready to pay their taxes and, lastly, the conception of respecting the regulations laid down by the Government must be reasonably wide-spread. According to Barbara Ward, these preconditions are absent in many countries. The suitability of large-scale planning on a governmental basis in India would depend upon the extent to which the three preconditions are fulfilled in this country.

Hayek's view.

It is urged by some economists that, while planning may be good for autocratic countries, it is not possible to plan at all in a democratic way. According to Professor Hayek planning is the road to serfdom. On this aspect of the question, opinion is divided. In any case, free nations cannot use some of the instruments of planning available to the totalitarian countries. Compulsion, which is essential for giving effect to planning measures, has only a limited scope in democratic countries.

Dr. Mathai's view.

It is rather curious that Dr. Mathai who as Finance Minister had announced the formation of the Planning Commission resigned three months later over the issue of the Commission. He said that the Commission was "not merely ill-timed, but in its working and general set-up ill-conceived." In his view the Planning Commission was unnecessary, as there were already on the shelves of the various Ministries of the Government plans costing nearly Rs. 3,000 crores which had been held up for lack of finance, materials and technical personnel. Dr. Mathai also criticised strongly the methods of working of the Planning Commission.

The bulk of modern opinion is, however, in favour of planning even in democratic countries, and it is urged that it is possible to plan in such a manner as to preserve the essentials of democratic institutions and the democratic way of life. In

a recent publication of the United Nations, a group of experts, who had made a special study of this aspect of the question, recorded their views as follows: "In countries in which there is a considerable degree of central direction of the economic system, the mechanism of planning and control can be used to ensure that all available labour is in fact employed. In countries which rely primarily on the system of private enterprise, concern is sometimes expressed lest a policy of full employment may entail the introduction of controls of a type considered foreign to their economic institutions. In our view, however, the steps required to promote full employment in free enterprise economies are fully consistent with the institutions of such countries."[1]

Opinion of the United Nations Committee.

4. THE FIRST FIVE-YEAR PLAN

The central objective of Planning in India is to raise the standard of living of the people of this country and to open out to them opportunities for a richer and more varied life.

A brief survey.

The first Five-Year Plan aimed at utilising more effectively the resources, human and material, available to the community so as to obtain from them a larger output of goods and services, and also at reducing inequalities of income, wealth and opportunity. The Plan had therefore a two-fold programme—increased productivity and reduction of inequalities.

Objective of the First Five Year Plan, 1951-56.

In July, 1951, the Planning Commission presented a draft outline of a plan of development for the period of five years from April, 1951 to March, 1956. The draft plan was divided into two parts, the first involving an expenditure of Rs. 1,493 crores and consisting largely of projects in execution which were to be implemented in any case, and the second proposing an outlay of Rs. 300 crores which was to be undertaken if external assistance were available. The First Five-Year Plan was presented before Parliament on December 8, 1952. In its final form, the Five-Year Plan no longer consisted of two parts and the various programmes were brought together in a single plan. The Five-Year Plan, which related to the same period as in the Draft Outline, was estimated to involve a total

Draft Plan in July, 1951.

Final Plan in December, 1952.

[1] *National and International Measures of Full Employment.*

Allocation of resources.

outlay of Rs. 2,069 crores. The broad allocation of resources between the main heads of development was as follows:—

	Outlay during 1951-56.	(Rs. crores) Percentage of total outlay.
Agriculture and Community Development	361	17·5
Irrigation	168	8·1
Multi-purpose irrigation and power projects	266	12·9
Power	127	6·1
Transport and Communications ...	497	24·0
Industry	173	8·4
Social Services	340	16·4
Rehabilitation	85	4·1
Others	52	2·5
	2,069	100·0

Main considerations.

In determining this target of expenditure, the main considerations that were taken into account were: (1) the need for initiating a process of development that would form the basis of the much larger effort needed in the future; (2) the total resources likely to be available to the country for the purpose of development; (3) the close relationship between the rates of development and the requirements of resources in the public and in the private sectors; (4) the necessity of completing the schemes initiated by the Central and State Governments prior to the commencement of the Plan; and (5) the need to correct the maladjustment in the economy caused by the war and Partition.

Highest priority to agriculture.

Under the Plan, agricultural development received the highest priority, which necessitated an extensive programme of irrigation covering minor as well as major projects. Generation of electric power, which was linked in most cases with the major irrigation projects, had also a high priority in its own right. Production and extensive distribution of electrical energy on a large scale was essential not only for the growth of small scale enterprises and for rural development in the larger sense of the term but also for industrial expansion. In regard to transport, public

authorities had a special responsibility. The railways were a nationalised enterprise. The state had further to take the initiative in linking up the whole country through a system of roads reaching down to the village, and in promoting development in new lines like shipping and aviation.

The high priority given to agriculture as well as to basic services like power and transport limited inevitably the investment which the public sector could itself undertake in industries. Industrial expansion in this five year period was expected largely on private initiative and resources, but they were to be supplemented at certain points by the resources of the public sector as well as by foreign investment; programmes of the public and the private sectors together would not, therefore, be inconsiderable. In the sphere of social services, the needs were so large that what could be achieved through financial investment by public authorities was limited. The financial investment in social service had to be supplemented by the efforts of the people on a large scale for the liquidation of illiteracy, improvement of sanitation and hygiene, development of civic services, imparting of elementary technical training etc. The lump-sum provisions in the Plan for the community development programme and for local works were expected among other things, to evoke such community effort. The Planning Commission recognized that planning in a democratic State was a social process in which, in some part, every citizen should have the opportunity to participate. To set the patterns of future development is a task of such magnitude and significance that it should embody the impact of public opinion and the needs of the community.

Industrial sector rests largely on private initiative.

The objective of the first Plan in India was to double *per capita* income as early as possible. There were three factors to be taken into account in this connection: (*a*) the rate of growth of population; (*b*) the relationship between investment (i.e. capital formation) and increase in national output; (*c*) the proportion of the increase in national output that could be employed in investment.

Doubling *per capita* income.

The problem was to determine the proportion of the additional national output which could be ploughed back into investment. The national income of India in 1950-51 was approximately Rs. 9,000 crores. Starting from this level, if the com-

Problem of additional national income.

munity could plough back into investment as much as two-thirds of the additional income each year, *per capita* income could be doubled—which meant—aggregate national income could be increased by 160 per cent—in about 22 years. Such a high rate of saving would, however, strain the economy excessively. A low rate of investment, such as 25 per cent of additional income, would, on the other hand, mean a much slower rate of increase in national income. In the first Five-Year Plan, capital formation was estimated to rise by about 20 per cent of the additional national income each year. The internal resources thus available would, to some extent, be supplemented by external resources. By 1955-56, national income would have gone up to about Rs. 10,000 crores, i.e., by about 11 per cent. If from 1956-57 onwards, investment was stepped up each year by about 50 per cent of the additional output, it would be possible to double per capita incomes in about 27 years from now, i.e., by 1977.

Rate of saving to rise appreciably.

In reaching this target of doubling per capita incomes by about 1977, the rate of saving as a proportion of total national incomes would have to rise from 5 per cent in 1950-51 to 20 per cent by 1967-68. By 1955-56, as a result of the Plan, the rate of saving would have gone up to 6¾ per cent. If measures were taken to step up investment progressively from then on, about 11 per cent of the national income would have to be devoted to investment by 1960-61 and a 20 per cent rate of saving would be reached by 1967-68. A programme of investment of this order would necessitate directing into investment as much as 50 per cent of the additional income realised each year after 1955-56.

Assessment of resources.

As for resources likely to be available to the Union and State Governments for financing the Plan, it was estimated that public savings (i.e. savings the Government were able to make from out of current revenues, after meeting non-developmental expeditures, and from the operation of State enterprises like railways) would finance about Rs. 738 crores of the expenditure visualised. Private savings likely to be available to the public sector through loans, small savings, deposits and funds, and other miscellaneous channels were estimated at Rs. 520 crores. The two sources—which together provide the normal budgetary resources of the Central and State Governments—would thus meet about Rs. 1,258 crores of the planned outlay of Rs. 2,069 crores.

In addition to the normal budgetary resources thus estimated at Rs. 1,258 crores, credit was taken for external assistance already received from the International Bank, the United States, Canada, Australia, New Zealand, etc., amounting to Rs. 156 crores. There was still left a gap of Rs. 655 crores. This gap had to be met from further external resources or, in the absence of it, by additional measures of internal taxation and borrowing and from deficit financing. External assistance.

During the period of the Plan, India would be able to draw upon its sterling balances to the extent of Rs. 290 crores. The Planning Commission visualised that to the extent of Rs. 290 crores deficit financing could be undertaken. In the budget estimates for 1954-55, deficit financing of Rs. 250 crores was provided for. Sterling resources.

5. ACHIEVEMENT AND FAILURE OF THE FIRST FIVE-YEAR PLAN

The Government's own view on the success or failure of the First Five-Year Plan is summarised below:

The Plan as finally formulated in 1952 proposed a total allocation of Rs. 2,069 crores by the Central and State Governments together. Later, the Plan was expanded and various adjustments were made mainly with a view to stepping up the aggregate outlay from the levels in the early years as also providing more employment opportunities. These adjustments raised the size of the Plan to Rs. 2,378 crores. The outlay proposed for the Centre was Rs. 1,390 crores and that for all the States taken together was Rs. 988 crores. As compared to these revised estimates of outlay the total outlay on the Plan by the Centre and the States was estimated at Rs. 2,012 crores, about Rs. 1,115 crores by the Centre and about Rs. 897 crores by the States. Total outlay.

The growth in the annual Plan expenditure was shown as follows: 1951-52—Rs. 259·4 crores; 1952-53—Rs. 267·6 crores; 1953-54—Rs. 343·0 crores; 1954-55—Rs. 475·9 crores and 1955-56—Rs. 666·5 crores. Total Rs. 2012·4 crores.

External assistance (in loans and grants) made available over the Plan period for development programmes in the public sector aggregated to Rs. 296 crores. Of this about Rs. 188 crores Resources Plan.

was utilised over the five years, leaving a carry forward of Rs. 108 crores for the Second Plan period.

The Plan outlay of Rs. 1,960 crores (based on the estimates of actuals for the fifth year) was financed as follows:—Taxation and the surpluses of railways—Rs. 752 crores—(38%); Market borrowings—Rs. 205 crores—(10%); Small savings and unfunded debt—Rs. 304 crores—(16%); Other capital receipts—Rs. 91 crores (5%); External assistance—Rs. 188 crores—(10%) and Deficit financing—Rs. 420 crores—(21%).

Small Savings. The record on small savings showed, steady improvement over the Plan period, the total collection being Rs. 237 crores as compared to the target of Rs. 225 crores.

The major problem of developing the economy, was to get a larger proportion of national income into the public exchequer. By the end of the Plan period no more than a small beginning could be said to have been made in this direction.

National income. Over the five years of the Plan, national income increased by about 17·5 per cent. While the rate of increase of national income had, on the whole, been satisfactory, its pace had not been steady. There was a large increase in 1953-54 and 1954-55 mainly as a result of the increase in agricultural output. In the two subsequent years, rate of increase diminished and, in fact, in 1955-56 the increase was nominal. Per capita income over the Plan recorded an increase of 10·5 per cent.

Development expenditure. The level of development expenditure in the first two years of the Plan, was low and it was stepped up as from the third year, the step-up being particularly large in the last two years which accounted for almost two-thirds of the actual outlay over the five-year period. This pattern of the growth of public development expenditure was reflected in the pattern of investment. More than 50 per cent of the investment in the public sector materialised in the last two years. Private investment also rose substantially in these years.

Public and Private Sectors. There were thus two distinct phases in the Plan. The first phase in which, apart from the accumulation of investment in 1951-52, the level of investment, public as well as private, was relatively low, and the second phase in which it rose markedly. The fact that the large increase in output occurred around 1953-54 and the rate of increase slowed down thereafter accounted for the upward pressures on prices in the final stages of the Plan.

During the latter part of the Plan the increase in national output as a whole slowed down while the investment was increasing steadily and no direct relationship between aggregate investment and the rise in output could, therefore, be established. *Investment and output.*

National income, could not but show fluctuations. From year to year in an economy which had a large agricultural sector depending upon monsoons and a fairly long period of steady investment was necessary before a clear pattern of investment output relationship emerged for the economy.

Agricultural production, showed distinct improvement over the Plan period. The output of foodgrains in 1955-56 at 64·8 million tons was nearly 11 million tons above the production levels of 1949-50, which was the base year for this purpose. The turning point came in 1953-54 with a peak production of 68·8 million tons of foodgrains. This was followed by another good crop in 1954-55 when the foodgrains output was 66·6 million tons. The output of cotton, jute and oilseeds also recorded substantial increases, although there were, as was to be expected variations from year to year. *Agricultural production.*

The index of agricultural production (1949-50=100) rose from 95·6 in 1950-51 to 114·3 in 1953-54 and 116·4 in 1954-55. In 1955-56, however, it recorded some decline. Altogether, the index of agricultural production by the end of the Plan period was about 19 per cent higher than in the year preceding the Plan. *Rise by 19 per cent.*

While the general trend of food production would appear to be upward, it must be admitted that favourable seasons played a notable part and there were substantial elements of instability despite the evidence of growth of agricultural production during the First Five-Year Plan.

Expenditure on irrigation and power during the First Plan was Rs. 569 crores or 29% of the total outlay on the Plan. The initial allocation under this head was Rs. 561 crores. During the Plan period, from major and medium irrigation works irrigation was available for about 6·3 million acres as against a target of 8·5 million acres but the area actually irrigated was a little over 4 million acres. Minor irrigation works benefited about 10 million acres of land. The capacity for power generation was increased from 2·3 million KWs to 3·4 million KWs. *Irrigation and power.*

Community Projects and National Extension Service.

By the end of the First Five-Year Plan, the Community Projects and National Extension Service programme had been

taken up in about 140,000 villages situated in 988 Development Blocks and was serving a population of 77·5 million persons. Against a provision in the Plan of Rs. 90 crores, the total expenditure incurred was about Rs. 46 crores.

Industrial output.

Taking the period of the First Plan as a whole, the total fixed investment, both public and private, in manufacturing industries amounted to Rs. 293 crores of which private investment amounted to Rs. 233 crores. The production of capital goods increased by about 70 per cent. The production of intermediate goods mainly industrial raw materials, increased by about 34 per cent. Similarly the production of consumer goods increased by 34 per cent.

Production of mill-made cloth increased from 3,718 million yards in 1950-51 to 5,102 million yards in 1955-56. The Plan target was exceeded by about 400 million yards. In the case of sugar, sewing machines, paper and paper-board and bicycle production reached the anticipated levels ; in fact, in some cases the targets were surpassed.

Cement production rose from 2·7 million tons in 1950-51 to 4·6 million tons in 1955-56, and the general engineering industries as well as heavy chemicals and the chemical products recorded sizeable increases in output.

The larger availability of raw materials, the utilization of capacity hitherto un-utilised as well as fresh investment on a significant scale contributed to the general increase in industrial output. Several new products, e.g., typewriters, alternators, etc., were manufactured in the country for the first time and a number of new and important industries like petroleum refining, ship-building, manufacture of aircraft, railway wagons, pencillin, ammonium chloride and D.D.T. were taken in hand.

Steel Plan.

In the public sector various industrial units such as the Sindri Fertiliser Factory, the Chittaranjan Locomotive Works, the Indian Telephone Industries and the Integral Coach Factory recorded satisfactory progress. On the other hand, the projected iron and steel plant and the heavy electrical equipment plant could not be commenced in the Plan period. The Machine Tool Factory, the NEFA newsprint factory and Bihar Superphosphate Factory were also behind schedule.

Private Sector.

The total capital investment required for industrial expansion in the private sector, was estimated at Rs. 233 crores, the bulk

of this investment being intended for capital goods and producer goods industries.

In the private sector, investment targets in the Plan were fulfilled and through the more intensive utilisation of existing capacity production was stepped up along lines broadly envisaged in the Plan. In some of the producer goods industries, however, progress in the establishment of additional capacity fell short of anticipations in the Plan. This was the position, for instance, in iron and steel, aluminium and nitrogenous fertilisers. The progress of modernisation and replacement of plant and machinery appears, on the other hand, to have been slower than was expected, the expenditure on this account being estimated at Rs. 110 crores as compared to the Plan estimate of Rs. 150 crores.

During the period of the First Plan, a number of institutions for promoting different groups of small industries were established. The total outlay on village and small industries was about Rs. 46 crores, of which Rs. 12 crores occurred in the States. Of the expenditure of about Rs. 34 crores by the Centre, handloom and Khadi accounted for Rs. 12 crores each, small scale industries for over Rs. 4 crores and village industries for nearly Rs. 3 crores. Village industries.

The prospects of each of the small industries would depend upon the vitality, efficiency and growth of the small industry sector as a whole. For the success of the small industries there should be adequate co-ordinating and planning arrangements.

The railway system was considerably strengthened. The plan targets were exceeded in the Railways and actual receipts over the five-year period were 1,586 locomotives, 4,758 coaches and 61,254 wagons. These were supplemented by an increase in indigenous production of locomotives from 27 in 1951-52 to 179 in 1955-56, of wagons from 3,707 to 14,314 and of coaches from 673 to 1,221. Some 430 miles of lines dismantled during the War were restored, 380 miles of new lines constructed and 46 miles of narrow gauge lines converted into meter gauge. Railways.

The programme for road construction and road transport was also implemented almost completely. Road transport.

The First Plan paid little attention to the development of mineral resources, and in regard to ports and shipping there Mineral resources.

Ports and Shipping.

was a considerable shortfall in outlay as compared to the initial provisions.

Housing.

In the field of housing, it was estimated that during the First Five-Year Plan, the Ministry of Rehabilitation provided 3,23,000 houses or tenements in urban areas, about 300,000 units were constructed by State Governments and by Central Ministries other than the Ministry of Works, Housing & Supply.

The various public housing schemes were estimated to have added during the First Plan about 742,000 houses or tenements. It was difficult to estimate the extent of private construction, but roughly it was thought that during the First Plan about 6 lakh units were provided in the private sector. In all during the First Plan about 1·3 million urban houses were added.

Employment position.

The employment opportunities in the Plan period tended, on the whole, to lag behind the increase in the labour force.

The extent of unemployment and under-employment in the economy as a whole was not likely to have diminished significantly over the Plan period as this was a problem rooted structurally in the economy but there was a qualitative improvement in the employment situation in the later stages of the Plan and in certain sectors increasing shortages of semi-skilled and technical personnel were felt.

Co-operation.

The First Plan envisaged the provision of Rs. 135 crores of co-operative credit—Rs. 100 crores as short-term loans, Rs. 25 crores as medium-term loans and Rs. 10 crores as long-term loans. The total disbursements of loans during the Plan period, however, amounted to only Rs. 80 crores—Rs. 53 crores by co-operatives and Rs. 27 crores by State Governments.

The main weaknesses, lay in the fact that the co-operative movement was not yet sufficiently broadbased and arrangements for credit had not been linked generally with programme for increasing agricultural production and with schemes of co-operative marketing of agricultural produce.

In the States, Co-operative Departments continued during the First Five-Year Plan to be on the whole weak. In some States the number of societies in the charge of a supervisor was too large, and there were also shortages of auditors. The arrears of audit increased and the supervision provided proved insufficient.

There was considerable activity in the field of land reform in the States. Much of it was of regional or State interest. Land reform.

Little progress, had, however, been made during the First Five-Year Plan in giving to local bodies the role in implementing development programmes. Local bodies' role in development programmes.

The Review pointed out the difficulties that existed in the way of any marked stepping up of investments at the commencement of the Plan. These were: industrial production of lower capacity, a severely rundown transport system, the problem of rehabilitation of large numbers of displaced persons, inflationary pressures within the economy and an adverse balance of payments position. There was little co-ordination, *inter se*, between the developmental programmes of the Centre and of the States, and the administrative machinery in some of the newly constituted States was inadequate even for the normal tasks. Insufficient progress owing to difficulties.

It became the starting point of a new and meaningful phase in policy formulation, programming and implementation. The modest scale of investment in the First Plan and the improvement in the economic situation consequent on increases in both agricultural and industrial production obviated the need on the part of the State to use the techniques of regulation and control with vigour. The improvement in the food situation in 1953-54 made it possible to abandon food controls.

Economic planning on a large scale, has so far been undertaken mainly by totalitarian states. India's great pioneering effort to introduce a planned economy in a democracy has, therefore, been hailed with admiration and appreciation both at home and abroad. A decade ago, such planning was inconceivable in any democratic country of the world. The Five-Year Plan thus created, in its initial stages, enthusiasm among the people. As agricultural improvement was one of the principal aims of the First Five-Year Plan, its success was notable in the last three years of the Plan, although the credit was due more to the favourable monsoons than to official enterprise. Critical appreciation. Pioneering effort in a democracy.

Defects.

We shall now deal with some of the defects of the First Five-Year Plan. The first defect was that an undue delay took place in giving the Plan a final shape. The result was that the targets Delay in giving the Plan a final shape.

fixed for the development of some important industries, *e.g.*, cloth, sugar, coal and cement, had already either been reached or approximated. Secondly, the Plan was launched without making adequate provision for financial resources. It was true that a very energetic effort was made to raise loans from all classes of the people, including the poor, for whom several forms of small loans and certificates were devised. But the countrywide campaign did not meet with the amount of response that was necessary. Deficit financing was resorted to but the results were most harmful. The third defect was the failure of the Plan to provide employment opportunities to the people. A planned economy and increase in employment should go hand in hand. But, unfortunately, unemployment steadily increased from the beginning of the implementation of First Five-Year Plan till its end. No Plan can be regarded as a sound one if it fails to contribute to the solution of the problem of unemployment. Fourthly, efficiency in administration did not seem to have been kept in the forefront by the authorities responsible for the execution of the Plan. Allegations of inefficiency, favouritism and corruption were so insistent and widespread that the Government was compelled to appoint an expert one-member committee to investigate the complaints relating to one of the projects, viz., the Damodar Valley. Fifthly, in the matter of priorities, there was a great lack of foresight and imagination. While large sums of money were spent on projects which were not of immediate necessity some of the most urgent schemes were not taken in hand on the plea of lack of funds. Sixthly, insufficient provision was made for enlisting public co-operation. If bureaucratic methods of management had been less pronounced in administering the Plan, it would have secured the goodwill and sympathy of the bulk of the population in a much larger measure and better results might have been achieved. Nevertheless, in spite of all these defects, many of which were remediable, it cannot be denied that the First Five-Year Plan was a bold expperiment and its object was to improve the economic condition of the people.

Financial resources inadequate.

Failure to provide employment.

Incompetent administration.

Lack of foresight.

Bureaucratic management.

6. THE SECOND FIVE-YEAR PLAN

The success, though partial, of the First Five-Year Plan emboldened the planners to embark on a bigger venture. The

Second Five-Year Plan was submitted to Parliament on May 15, 1956. The main features of the Second Plan have been summarised as follows[1]:

Main objectives.

The Plan has been formulated with the following main objectives in view:—

(*i*) a sizeable increase, of the order of 25 per cent, in national income so as to raise the level of living in the country;

(*ii*) rapid industrialisation with particular emphasis on the development of basic and heavy industries;

(*iii*) a large expansion of employment opportunities; and

(*iv*) reduction of inequalities in income and wealth and a more even distribution of economic power.

These objectives are inter-related and would have to be viewed as part of an integrated plan for the balanced development of the economy.

The core of development is rapid industrialisation and diversification of the economy. Rapid industrialisation depends upon the development of basic industries like iron and steel, non-ferrous metals, coal, cement, heavy chemicals and engineering. But investment in basic industries, while it would create demand for consumer goods in the short run, it would not directly absorb any large quantities of labour.

Consequently, a balanced pattern of industrialisation is needed so as to increase supplies of the required consumer goods with labour intensive techniques which also would economise the use of scarce capital. Considering the prevailing volume of unemployment and its social costs, increase in employment opportunities would become an important objective in itself. Hence the justification for special measures to increase labour-intensive and capital-saving employment. But, over a period, the volume of employment would grow only with the expansion of productive equipment and of essential goods like food, cloth, sugar and house-room, on which the incomes of the newly employed would be spent. The objective would, therefore, be, increasing employment at rising levels of income.

Industrial Policy.

The acceptance by Parliament of the 'Socoalist pattern of society' as the objective of social and economic policy, the progress of economic development under the First Five-Year Plan

[1] *Annual Report on Currency and Finance for 1955-56*, published by the Reserve Bank of India.

and the projected further rapid development under the Second Five-Year Plan necessitated a revision of the industrial policy of Government. The Industrial Policy Resolution presented to the Lok Sabha by the Prime Minister on April 30, 1956, replaces the original Resolution of April 1948 which had hitherto guided the industrial policy of Government. The Resolution accordingly stresses the need to accelerate the rate of economic growth, to speed up rapid industrialisation, to expand the public sector and to build up a large and growing co-operative sector. A more positive and greater role is assigned to the public sector. At the same time, as an agency for planned economic development, the private sector is to have the opportunity to develop and expand. The Resolution also recognises the important role which the small-scale and village industries would have to play in the development of the national economy, particularly on the solution of the employment problem and a more equitable distribution of the national income.

Reduction in Inequalities. Economic development has to be combined with reduction in economic and social inequalities as between persons, classes and regions, by simultaneously raising incomes at the lowest levels and reducing incomes at the top, the former being the more important aspect. Again, the reduction of inequalities could follow only from the totality of measures and institutional changes undertaken as part of the Plan, such as the pattern of investment, direction to economic activity given by State action, expansion of social services, institutional changes in land ownership and management, regulation of joint stock companies and the managing agency system, growth of the co-operative sector under State sponsorship and fiscal measures. While fiscal measures have an important part to play in reducing inequalities, some of the measures which would reduce inequalities are apt to react adversely on incentives. The adaptation of the tax system to the requirements of development is a problem for continuous study of the Government, and it is possible that far-reaching changes in the tax system would be required. The proposals which require detailed examination would include an expenditure tax, gift tax and fixation of a ceiling on income. As regards the last proposal, a realistic approach is not through legislation but through institutional changes such as control of private monopoly, enlargement of

the public sector and of co-operative production, provision of institutional credit, elimination of functionless rent-receivers and progressive adaptation of the tax system. Thus, a ceiling on incomes is the end-product rather than the beginning of a whole process.

In any comprehensive plan of development, it is axiomatic that the special needs of the less developed areas should receive due attention. The National Development Council has stressed the need for balanced regional development through decentralised industrial production, appropriate policy on industrial location and measures to promote greater mobility of labour; this approach would underline the new Industrial Policy Resolution.

Economic Policy and Techniques.

There are, broadly, two types of complementary techniques available, and equally necessary, for implementing the Plan, namely (1) fiscal and monetary policy for the over-all regulation of economic activity, and (2) direct controls on prices, exports, imports, licensing of industries or trades, allocations etc., to regulate particular sectors of the economy. In a developing economy, the basic trend of governmental operations is expansionist. With the many contingent demands on resources and the likelihood of bottlenecks, *e.g.*, in agricultural production and foreign exchange, the problem in the main, is one of contending the emerging inflationary pressures by increasing domestic production, supplemented by imports to a limited extent, and through appropriate physical control and allocations. The technique to be employed, fiscal and monetary policies or direct controls, have also to be varied in the light of requirements.

Planning is not a once-for-all exercise for a five-year period. It would combine flexibilities and perspective so as to take into account not only new requirements within the period but also to lay the foundations for subsequent plans.

Plan Outlay and Allocations.

The Second Plan is in one sense, a continuation of the process of development commenced in the First Plan; but there is inevitably a shift in priorities, with accent on industrialisation, particularly on heavy industries, and on transport.

The proposed development outlay of the Central and State Governments would amount to Rs. 4,800 crores over the period of the Second Plan, as compared with the target of Rs. 2,356

crores under the First Plan, though actual outlay has been estimated to have been somewhat below Rs. 2,000 crores. This does not include the contributions in cash or kind made by people in execution of local development works.

While the absolue amount of outlay shows a sizeable increase under all heads, as a proportion of total outlay there is a significant increase under the head 'Industry and Mining' from 7·6 per cent in the first Plan to 18·5 per cent. 'Transport and Communications' also show a rise from 23·6 per cent to 28·9 per cent. The relative shares of all other groups show a decline.

Of the total development outlay of Rs. 4,800 crores, Rs. 2,559 crores represents expenditure to be incurred by the Centre, and Rs. 2,241 crores is the total of Plan expenditures of all State Governments. The distribution of the outlay under the major heads of development is shown for the Centre and States in the Table, given below:

(Crores of Rupees)

	Centre	Part A States	Part B States	Part C States	Total
1. Agriculture & Community Development ...	65	359	112	31	568
2. Irrigation and Power ...	105	567	217	24	913
3. Industry and Mining ...	747	99	37	7	890
4. Transport and Communications	1,203	120	41	21	1,385
5. Social Services ...	396	393	117	39	945
6. Miscellaneous ...	43	42	11	3	99
TOTAL ...	2,559	1,580	535	125	4,800

Of the total outlay roughly Rs. 3,800 crores represents investment, *i.e.*, expenditure on the building up of productive assets, and Rs. 1,000 crores may broadly be called current developmental expenditure.

Private investment. The likely level of Private investment over the Second Plan period, estimated mainly on the basis of the broad investment trends over the last five years and the known investment

programmes in certain lines, may be placed at Rs. 2,400 crores, distributed as follows:—

	(Crores of Rupees)
1. Organised Industry and Mining	575
2. Plantations, electricity undertakings and transport other than railways	125
3. Construction	1,000
4. Agriculture, and village and small-scale industries	300
5. Stocks	400

In the Fisrt Plan, total investment in the economy was estimated roughly at about Rs. 3,100 crores; in the Second Plan the target of investment in the two sectors combined is Rs. 6,200 crores, the ratio of public and private investment being 61 : 39.

National Income, consumption and employment.

The average level of consumption in the economy would increase somewhat less rapidly than national income in as much as a large proportion of domestic output would have to be saved and invested. The projected total investment of Rs. 6,200 crores during the Second Plan period would require, broadly, an increase in the rate of domestic saving from the current level of about 7 per cent of national income to about 10 per cent in 1960-61, assuming that, in addition, external resources of the order of Rs. 1,100 crores would be available during the period. Total consumption expenditure might, on this assumption, increase by some 21 per cent as against the increase in national income of 25 per cent. The corresponding increase in total consumption over the First Plan period amounted to some 16 per cent, and that in national income to about 18 per cent. But both the growth in consumption and in national income would be conditional on a number of assumptions such as availability of foreign resources of the required order, co-ordination of planning, avoidance of waste, and the degree of co-operation from the people in taking to improved methods of production and for creating a favourable climate for development.

The estimated full-time employment likely to be generated over the Second Plan period in sectors other than agriculture is 8 million. Besides, schemes of development such as irrigation and land reclamation would reduce under-employment and also absorb new persons to some extent. Altogether, in aggregative terms, the Plan envisages a sufficient increase in the demand for labour to match the increase in the labour force estimated at 10 million during the Second Plan.

Finance and Foreign Exchange.

The problem of mobilising resources is to be viewed in the light of the requirements both of the public and of the private sector, as they both draw upon the same pool of savings, and care would be taken to ensure an adequacy not only of domestic finance but also of foreign exchange. The basic issue is whether and how domestic savings to the requisite extent could be mobilised. This, in turn, depends on the desirability of limiting consumption beyond a point and the suitability of the means to be used for the purpose. Moreover, the necessity of importing the required machinery and equipment from abroad in the early stages of industrialisation presents the special problem of foreign exchange resources.

Finance for the Public Sector.

The following table sets out the scheme of financing envisaged under the Plan.

		Crores of Rupees
1. Surplus from current revenues:		800
(*a*) at 1955-56 rates of taxation ...	350	
(*b*) additional taxation	450	
2. Borrowings from the public:		1200
(*a*) Market loans	700	
(*b*) Small savings	500	
3. Other budgetary sources:		400
(*a*) Railway's contribution to the development programme	150	
(*b*) Provident funds and other deposit heads	250	
4. Resources to be raised externally		800
5. Deficit financing		1200
6. Gap—to be covered by additional measures to raise domestic resources		400
		4,800

The budgetary resources that can be raised through taxation, borrowing and other receipts thus amount to Rs. 2,400 crores. In arriving at the figure of Rs. 450 crores under additional taxation, the recommendations of the Taxation Enquity Commission have been taken into account and it is assumed that steps will be taken to implement these as early as possible after the commencement of the Plan. The Central and State Governments are expected to raise between them a total of Rs. 450 crores in equal amounts. Should there be increases in non-developmental expenditure such as on defence and administration or significant loss of revenue on account of the adoption of social measures such as prohibition, effort will have to be made to raise further resources, if the contribution of current revenue to the Plan is not to be reduced.

The proportion of tax revenue to national income in India has been virtually constant at 7·5 per cent over several years. Considering the financial requirements of the Second Plan, which are much larger than were assumed by the Taxation Enquiry Commission and the dangers of deficit financing or of any cut-back in Plan expenditures, the target for additional taxation is to be raised from Rs. 450 crores to Rs. 850 crores, so as to cover the gap of Rs. 400 crores. Taxation has, however, its limits and has to be supplemented by other devices such as appropriate pricing policies of public enterprises or fiscal monopolies in selected lines, and economies in both Plan and non-Plan expenditures.

The estimate of Rs. 700 crores of borrowing from the public assumes that the annual receipts from this source will, on an aggregate, be about 40 per cent higher than they have been of late. It should also be borne in mind that, in the Second Plan period, loans for a total of Rs. 430 crores will mature for repayment. Judged in this light, and especially in the context of brisk demand for funds in the private sector, the task of mobilising a net amount of Rs. 700 crores can not be regarded as easy of fulfilment. In this connection the possibility of extending the scope of social security schemes must be fully explored. The nationalisation of life insurance should also prove a growing source of demand for public loans. In the case of small savings also, the target of Rs. 100 crores a year, on an average, will require a further substantial step-

ping up of these collections, as compared with net receipts of Rs. 65 crores in 1955-56 and Rs. 33 crores in 1950-51.

The railways are expected to contribute Rs. 150 crores to the finance of their plan of Rs. 900 crores, both through selective adjustments in rates and freights and the growth of traffic at existing rates. In addition, the railways have to make in the Plan period a contribution of Rs. 225 crores for current depreciation, which has not been included in the Plan.

The Plan also takes credit for Rs. 800 crores of external resources, which is about four times the utilisation of foreign loans and grants during the First Plan period. It is extremely difficult to forecast the foreign exchange requirements and earnings over a period of five years. But, broadly speaking, on certain assumptions including, in particular, that the terms of trade in the next five years will remain, on an average, the same as they have been in 1955-56 (first nine months) and that inflationary pressures will be held firmly under control, it is estimated that during the Second Plan period there will be an aggregate balance of payments deficit on current account of about Rs. 1,100 crores. It is proposed to cover a part of the deficit by drawing down the sterling balances by about Rs. 200 crores; this compares with the decline of Rs. 140 crores in India's sterling balances in the First Plan period. The gap of Rs. 900 crores in foreign exchange has to be covered by floatation of loans in foreign markets, by borrowing from the World Bank, by loans and grants from other international institutions, through private foreign investment and finally through loans and grants from friendly foreign governments. Out of this sum, an inflow of foreign capital of the order of Rs. 100 crores is envisaged for the investment programmes in the private sector. For the public sector, therefore, a credit of Rs. 800 crores is taken by way of external resources. In the First Plan period, a total of Rs. 298 crores of external finance was made available to India for programmes of development in the public sector, of which Rs. 204 crores was estimated to have been utilised. The balance of Rs. 94 crores is thus available for utilisation in the Second Plan period. In addition, arrangements will be made for credits from the U.S.S.R. Government and the U. K. Government and British bankers for a net amount of

Rs. 76 crores to finance the steel projects. As for the private sector, Rs. 22 crores is already available as the undisbursed portion of the loan made by the World Bank to the Indian Iron and Steel Company, the Tata Hydro-electric Company and the Industrial Credit and Investment Corporation of India.

The outside limit to deficit financing is placed at Rs. 1,200 crores. In assessing the likely reactions of the proposed deficit financing, it may be noted that against the proposed deficit must be set off the drawing down of sterling balances by Rs. 200 crores. The remaining deficit of Rs. 1000 crores represents the net addition to currency in response to the Government's budgetary operations, which may be expected also to result in a secondary expansion of bank credit, through the ability of banks to create such credit as is limited by the fact that people in India have a distinct preference for holding currency rather than bank money. Any adverse repercussions of deficit financing will have to be dealt with in all possible ways,—by appropriate Central banking policy, through judicious recourse to quantitative and qualitative controls on credit, including variation in reserve ratios, by the building up adequate stocks of essential goods like food and cloth, through taxes on excess profits, windfall gains, and on excess consumption in certain lines, and physical controls including allocations and rationing of scarce resources.

Investment in the Private Sector.

The investment requirements of the private sector are estimated at Rs. 2,400 crores. It is difficult to indicate the sources of savings for this sector, as only a small proportion of the total savings utilised in this sector passes through institutional agencies, and as what may be termed direct savings, —savings of the persons undertaking the investment or the savings of their friends and relatives,—play a prominent part. However, on certain broad assumptions, an estimate of resources for the organised sector of private industry will be possible. Considering the fairly high rate of investment already achieved in organised industries and the increasing strength of the capital market, it should not be difficult to raise the required resources for fixed investment. There should be even less difficulty in obtaining working capital to the extent required in view of the size of deficit financing. The State can assist in the fulfilment of the programmes in this

sector partly by eliminating undesirable investment through control of capital issues, export and import control, licensing of industries, and partly through tax concessions and adjustments, and selective assistance through the various corporations which have been set up for the purpose.

A total outlay of Rs. 720 crores is envisaged on industrial Development in the private sector (including the National Industrial Development Corporation programme, and excluding mining, electric generation and distribution, plantations and small scale industries), comprising Rs. 570 crores on new investments and Rs. 150 crores on replacements and modernisation. Excluding provision of Rs. 55 crores at present made for N.I.D.C. requirements amount to Rs. 665 crores against which present estimate of resources for the private sector places them at Rs. 620 crores, as follows:

(Crores of Rupees)

	1951-56	1956-61
Loans from Industrial Finance Corporation and State Finance Corporations and Industrial Credit and Investment Corporation	18	40
Direct and indirect loans from Governments, Central and State participation ...	26	20
Foreign capital, including suppliers' credit ...	42—45	100
New Issues	40	80
Internal resources (for new investment and replacements)	150	300
Other sources such as advances from managing agents, EPT refunds etc.	61—64	80
Total ...	340	620

Comment.

The Second Five-Year Plan met with severe criticism from all parts of the country and from almost all sections of the community. The most general comment on this Plan was that it was over-ambitious. This criticism came not only from Indian economists, but also from foreign experts. Mr. Burnstine, President of the World Bank, definitely stated that the Plan was too big for India's financial resources and he offered

Over-ambitious.

the friendly advice that it should be cut down so as to fit in with the financial resources of the country. He also hinted that foreign resources would not be available unless the Plan was of a more moderate size. But this well-meaning advice roused the ire of the planners and their associates who thought that it would be derogatory to their self-respect to listen to this honest advice.

Lack of resources. Many veteran economists raised their voice of protest against the provisions of the Plan on the ground that the country did not possess sufficient resources to give full effect to the entire Plan. They thought that the poor and middle-class people were already groaning under the heavy burden of taxation, and any addition to this burden would affect them most adversely. The richer classes in the mercantile community evaded payment of taxes, and when further taxation would be levied on these people there would be additional incentives to evasion. They pointed out that the expansion of the national debt, including the small investments, would be inadequate to meet the requirements. They, therefore, feared that the Government would embark on deficit financing on a large scale, which would create hardships for all classes of the people, and if continued for long time, would result in financial disaster.

Deficit financing.

Agriculture *vs.* heavy-industries. It is agreed on all hands that the importance given to agriculture in the first Plan was a very wise move, which had led in no small measure to the success of the first Plan. But the Second Plan framers failed to appreciate the vital necessity of encouraging agriculture and fixed their eyes mainly on heavy industries, with the result that before the lapse of a full year the country was faced with severe scarcities and near-famine conditions in most parts of India.

Unemployment. It is well known that heavy industries are capital-intensive, while small industries are labour-intensive. Therefore, the Second Plan is not likely to go anywhere near the solving of the problem of unemployment.

Public *vs.* Private Sectors. In the first Plan the Public and Private Sectors were given an equal status, but in the Second Plan the Public Sector is given vastly greater importance and the persons responsible for the Private Sector feel that their services in the economic sphere are being minimised. Such feeling is productive of lack of good-will between the two sectors. The enterpreneurs in the

Private Sector are men of experience and it would be advantageous to the country to obtain their assistance in administering the Plan.

Autocratic methods.

In a democracy an economic plan would naturally rouse the interest of the people, but the autocratic methods which have been adopted in forcing the Plan upon the people have created feelings of opposition and ill-will. The speeches made by the Ministers and official leaders who preached the doctrine of "carrying extra burdens to-day for the sake of to-morrow" not only fall flat on the half-starved consumers, but also create feelings of disappointment and hostility. The idea implicit in these speeches is the policy of securing "co-operation by coercion", but such policy has nowhere in the world proved successful and in India it has already resulted in failure.

No attempt to obtain popular support.

The inability to understand and appreciate these fundamental factors has led to a situation which is prejudicial to the successful working of the Second Five-Year Plan. The whole country at the present moment is in the grip of a severe inflation and very high prices prevail everywhere. The abnormal increase in imports has led to large withdrawals in the last year from our slender foreign exchange reserves. If things do not improve, India will be declared a bankrupt nation in no time. In these circumstances, it is being found necessary to 're-phase the Plan'. The re-phasing should relate to all the aspects of the Plan, but there is a tendency among the planners to confine their attention to only one or two aspects. The ministers and their followers would seem to be satisfied if the "core" of the Plan, by which they mean "iron and steel products, coal, transport and ancillary power", is saved, but persons with a broader outlook insist that the whole Plan be remodelled. It is also urged in some quarters that the period of the Plan should be lengthened by two, three or five years so that undue hurry and indecent haste may be avoided and the Plan may be worked in an atmosphere of harmony and goodwill leading to the happiness and prosperity of the entire population.

Inflation.

Re-phasing the Plan.

Plan-period should be extended.

This is the proper occasion on which it is necessary to urge the Government to take adequate steps to secure efficiency in the administration of the schemes and put down with a strong hand incompetence, favouratism and corruption which

Incompetence, favouratism and corruption must be rooted out.

prevail in the working of many of these schemes. If this be possible, a large amount of money will be saved, which may go towards the proper implementation of the Plan.

In the general administration of the country, both at the Centre and in the States, there is considerable scope for economy and retrenchment. The belief is widespread that the administrative set-up is top-heavy, and it will be desirable to undertake retrenchment, wherever possible and desirable. All items of expenditure which are not absolutely essential should be avoided or at least postponed till the advent of better time.

Administrative expenditure to be curtailed and avoided.

7. COMMUNITY DEVELOPMENT PROGRAMME

Closely associated with the Five-Year Plan is the Community Development Programme. On accession to power, the Congress Governments were immediately faced with the colossal task of raising the standard of living of the teeming millions inhabiting rural India. The immensity and complicated character of the task, however, can hardly admit of stereotyped approaches. A programme of community development was, therefore, launched to bring about an increase in production and employment, together with improvement in health and literacy of the major section of the villagers. There was some novelty in this programme, as it entailed that initiative must be made to develop from below and not any ready-made solution imposed from above. The Community Project might, therefore, be aptly described as an aided self-help movement. This is both an economic measure and an expression of useful activity.

Basic principle.

The programme of Community Projects derived its inspiration from the rural development schemes in Etawah, Gorakhpur and in some parts of Baroda and Madras, not to speak of the rural-cum-urban development in rehabilitation townships such as Nilokheri, the urban development in Faridabad and many other associated experiments. The Community Development Programme sought to synthetize these experiences all over India.

Genesis.

In May, 1952, the Government of India decided to launch this programme and it was inaugurated in 55 project areas on October 2, 1952. More projects were launched in 1953 in two

Community Projects first launched on

October 2, 1952.

successive instalments. But as these projects were to run for three years only, while improvement in rural life was to be a continuing process, a long-term Programme of National Extension Service was introduced on October 2, 1953, and the Community Programme was integrated with it. The emphasis on agriculture and allied activities remained the same in both the Programmes, but in the project areas the works programme was to be more comprehensive than in the extension blocks. A development block belonging to the Extension Service might, however, be subsequently included in the Community Programme, the pace at which this was to take place being conditioned by the availability of both external and internal resources.

National Extension Service scheme inaugurated on October 2, 1953.

Finance.

A total sum of Rs. 101 crores was recommended by the Planning Commission during the First Plan for expenditure on Community Projects and National Extension Blocks.

It was observed in the annual Report on Community Projects Administration that during 1953-54 over 37 millions of India's rural population were covered in 220 Community Project Blocks comprising 23,650 villages and in 237 National Extension Blocks comprising 23,700 villages.

Administration.

For the administration of the programme the maximum utilization of the existing machinery was aimed at. Guidance on matters of principle comes from a Central Committee consisting of the members of the Planning Commission with the Prime Minister as the Chairman. The chief executive officer is the Administrator, advised by a committee consisting of the nominees of the various Ministries of the Government of India. The Administrator is assisted by a team of technical experts.

Central level.

State level.

At the State level, there is a Development Committee with the Chief Minister as the Chairman and the chief executive officer is the Development Commissioner, assisted by a technical advisory committee and a team of specialists.

Project level.

At the project level, the executive head is the Project Executive Officer who has the benefit of the assistance of the existing development departments of the State Governments and of an additional staff specially earmarked for the project.

Village level.

One project consisting of 300 villages is divided into three blocks of about 100 villages each. For every five villages there is to be a multipurpose village-level worker with intensive train-

ing in agriculture, animal husbandry, public health and adult education. He is the principal agent who carries the message of the project to the villages. Where a problem is beyond his competence, he is to draw upon the experience and knowledge of the experts at the project level. The project area is also to have a group of community organisers who are specialists in community organisation and social welfare.

Progress.

By March 31, 1957, there were 1814 Blocks in operation throughout the country covering 234,910 villages with a rural population of 130 millions, according to the fifth year's report on the working of the Community Development and National Extension Service Programme.

Of the coverage, 41 per cent were under the intetnsive development phase and the rest under the N. E. S. programme. The people's voluntary contributions in cash, kind and labour rose to Rs. 36·31 crores, as against the total Government expenditure of Rs. 60·04 crores. People's contribution thus accounted for about 60 per cent of Government expenditure.

The results of the C.D. and N.E.S. movements were to be judged less in terms of the direct expenditure involved for the physical achievement recorded and more in terms of the influence which the programme exerted upon the activities of the people.

The adoption of better methods and improved techniques of crop production had led, according to the National Sample Survey personnel, to an increase of about 20 to 25 per cent in the yields of principal crops in the N.E.S. and C.D. areas. By the end of December, 1956, 26,28,000 demonstrations were organised on farmers' fields; 74,90,000 maunds of improved seeds and 169,93,000 maunds of chemical fertilizers were distributed.

Education.

The people in the C.D. and N.E.S. areas had come forward with offers of land, money and labour for the construction of school buildings. Up till the end of December, 1956, 22,000 new schools had been started and 8,448 ordinary schools converted into basic schools. To associate the universities with the Community Development programme, the authorities were requested to include the subject of Community Development in their syllabuses for under-graduate and post-graduate students in economics and education.

The number of adult education centres rose from 30,000 at

the end of September, 1955, to 58,000 at the end of December, 1956. The number of community centres, including recreation centres, increased from 65,000 to 131,000. The units of people's organisation, such as youth clubs, farmers' unions, mahila samities, also increased from 56,000 to 138,000 during the same period. About 85,000 village leaders had been trained.

The emphasis on the growth of local institutions led to the establishment of 34,000 new panchayats and other statutory bodies and 48,000 non-statutory bodies, like village councils, vikas mandals, etc.

In the field of rural arts, crafts and industries, 92,000 people had been given training at 2,648 production-cum-training centres set up in various parts of the country. Full-time employment had been provided to 1,70,000 persons in the C.D. and N.E.S. Blocks and part-time to about 5,80,000 persons.

People's participation. To enable the people to take part in the formulation of development programmes, a Project Advisory Committee had been set up in each Community Development Block. This Committee consisted of members of Parliament and State Legislatures from the area and the representatives of District Boards, Panchayats and Co-operative Societies, as also prominent agriculturists and social workers besides project officials concerned.

Co-ordination. A significant feature of the progress was the greater measure of co-ordination of the development and other welfare activities among the various departments of the Government both at the Centre and in the States. Co-ordination with the Ministry of Food and Agriculture had been brought about both at the ministerial level and at the official level. Co-ordination had also been established with the Ministry of Commerce and Industry and the various Boards.

Comment. The picture drawn in the Report is a rosy one. But it seems there is another side to this picture. Some persons acquainted with the work of the Community Development Projects believe that the huge expenditure, so far incurred, has not brought much tangible return. The view is also expressed that the activities of the Community Projects have not yet touched the hearts of the people at large and that this organisation can hardly be called a "peoples' movement".

CHAPTER XXXIV

FISCAL POLICY

1. GENERAL OBSERVATIONS

THE abstract question whether free trade or protection should be adopted by a State in its fiscal policy would form more fittingly the subject of discussion in a treatise on General Economics than in a work on Indian Economics. But the arguments of the two schools may be briefly summarised here so that they may be helpful to the solution of our concrete problems. The advocates of free trade point out the following advantages of the system: (1) international trade is like internal trade; the freer it is, the greater are the advantages to both parties; by allowing trade to be absolutely unfettered, everyone is able to buy in the cheapest and to sell in the dearest market, and the gains of all are at a maximum; (2) every nation is in a position to develop its natural advantages to the utmost, and thus the world's total wealth is enhanced, because of the distribution of productive energies in the most economical fashion; and (3) Free Trade means goodwill among nations and among sections of the community. To these arguments the opponents of the system reply (*i*) that the analogy between internal trade and international trade is not quite correct; (*ii*) that when an industry in one country is threatened with destruction by a similar one in another, it is no solace to the former that the world's wealth is being augmented at the cost of its own; and (*iii*) that, far from promoting goodwill, free trade may produce the result of placing one country in economic subjection to another.

Merits of Free Trade not recognised by Protectionists.

The arguments that have been usually advanced in favour of Protection are the following: (1) It is necessary to restrict imports in order to secure a surplus of exports so that there may be a balance of trade favourable to the country; (2) Protection is beneficial to agriculture as well as to industry because the resulting increase of wealth and population is likely to afford a large market for the food and raw materials of the neigh-

Merits of protection.

bourhood; (3) Protection has a tendency to increase wages and to raise the standard of living of labour; (4) it furthers an all-round economic development and secures national industrial independence; and (5) under the fostering care of the State, infant industries are protected against unfair competition during the period of their growth, and thus saved from extinction. The usual objections to Protection are: (1) In principle, it is destructive of all foreign trade and the moral and intellectual benefits resulting therefrom; (2) it prevents a country from producing as much in the aggregate as it might produce in the absence of Protection; (3) it does not really protect, because it destroys as many industries as it artificially fosters; (4) it diverts capital from its natural channels; (5) it tends to demoralise the industrial classes and to render industry unproductive; (6) it benefits the producer at the expense of the consumer, and is thus a robbery of the many for the benefit of the few; (7) it involves interference of the state with trade and industry, and often produces political corruption, and (8) it causes national animosities.

Defects.

Without entering upon a detailed criticism of the arguments and reasonings of the two rival parties, it may be remarked here that, in their enthusiasm for supporting their respective favourite doctrines, the advocates of each go a little too far in their particular direction. Although some of the positions occupied by the extremists on each side are untenable, there is an element of truth in each of the two opposed doctrines. Cosmopolitanism is an excellent ideal, but a far-off one. So long as the different nations exist, each one of them should be allowed to develop itself in the best way it can. Free trade means rivalry among the industries of different countries; and when such industries are on a footing of equality, it helps to make each of them stronger. But when the struggle is between a strong industry and a weak one, the latter is sure to be pushed out of the field unless it is backed up by the state. Even such an ardent supporter of free trade as J. S. Mill admitted that, in the infancy stage of an industry, protection was useful. "The only case," he observed, "in which, on mere principles of political economy, protective duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation) in hopes of

Element of truth in each theory.

Mill's concession in favour of Protection.

naturalising a foreign industry, in itself perfectly suitable to the circumstances of the country." Mill said further: "A protective duty, continued for a reasonable time, will sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment. But the protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will after a time be able to dispense with it; nor should the domestic producers be ever allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing."[1]

'Infant industry' argument.

Friedrich List was an ardent advocate of the 'infant industry' argument. "A nation," said List, "which only carries on agriculture is like an individual who in his material production lacks one arm."[2] He laid great stress on productive power, and held that the power of producing wealth was "infinitely more important than wealth itself." The productive powers of all nations are not equal, and the differences are largely the result of natural and acquired advantages. The superiority of one country over another may be due to acquired advantages, and List rightly urged that "the less advanced nations must be raised by artificial measures to that stage of elevation to which the English nation has been artificially elevated." He also thought the value of manufacturing industries, from the point of view of civilisation, to be very great; without them, a nation must remain relatively unprogressive.

List's views.

Professor Taussig also supports the 'infant industry' argument. His view does not simply rest on List's "doctrine of stages in economic evolution—on the inevitableness of the transition from the agricultural and extractive stage to the manufacturing stage." He goes a step further when he says: "I am disposed to admit that there is scope for protection to young industries even in such a large stage of development.

Taussig goes further.

[1] Mill, *Principles of Political Economy*, Bk. V. Chap. X.

[2] List, *National System of Political Economy*. List clearly points out the defects of an exclusive pursuit of agriculture in these words: "In a country devoted to mere raw agriculture, dullness of mind, awkwardness of body, obstinate adherence to old notions, customs, methods, and processes, want of culture, of prosperity, and of liberty prevail. The spirit of striving for a steady increase in mental and bodily acquirements, of emulation, and of liberty, characterises, on the contrary, a state devoted to manufacture and commerce."

Any period of transition and of great industrial change may present an opportunity."[1]

The fiscal policy which ought to be adopted by a country at a particular moment should be appropriate to its peculiar circumstances at that moment. As a matter of fact, all the industrially advanced countries of the world have afforded protection to their industries during the period of their infancy. The protective policy of Cromwell and Colbert laid the foundations of the industrial greatness of England and France respectively. Germany, France, the United States, the British Colonies and Japan have for a long time past maintained definitely the policy of protection. England, after having been a free trade country for more than a century, has again become protectionist.

The right fiscal policy for India.

It has already been pointed out that India has, until recently, been mainly an agricultural country exporting raw materials and food-stuffs and importing manufactured products. Producing only raw materials, she imported manufactured goods, and was thus, in the words of the great economist, "like an individual with one arm, which is supported by a foreign arm." Besides, the exportation of agricultural products meant the sending away of the soil. It increased the tendency to the operation of Law of Diminishing Return in an intensified form. Further, a purely agricultural country, dependent on the mercy of the monsoons, must always remain subject to periodical visitations of the spectre of famine. It should also be remembered that agriculture is not a sufficiently remunerative occupation, and a people devoted almost exclusively to it can never hope to make any great progress in material civilisation.

2. DISCRIMINATING PROTECTION

The Fiscal Commission, 1922: Its recommendations.

In 1921, an Indian Fiscal Commission was appointed with Sir Ibrahim Rahimtoola as its President. It reported in 1922. This Commission laid down the following three conditions for the protection of an industry:

"(1) the industry must be one possessing natural advantages, such as an abundant supply of raw material, cheap power, a sufficient supply of labour, and a large home market;

[1] Taussig, *Some Aspects of the Tariff Question.*

"(2) the industry must be one which without the help of protection is not likely to develop at all, or as rapidly as is desirable in the interests of the country ; and

"(3) the industry must be one which will eventually be able to face world-competition without protection."

Criticism.

These conditions were too rigid and unnecessarily restrictive. Besides, there are two classes of industries which deserve special consideration. In the first place, there are some industries which are essential for purposes of national defence, and these should be protected, irrespective of the general conditions mentioned above. Secondly, there are industries of which the products are utilised as raw materials by numerous other industries, these are called 'key' or 'basic industries'—and of which any cessation of import would bring other industries to a stand-still. It was unfortunate that no heed was paid by the Government to the note of dissent by a minority, which made many valuable suggestions.

The Indian Fiscal Commission recommended a policy of 'discriminating protection'.[1] An 'all-round, all-pervasive' protective system cannot possibly be advantageous or beneficial to the country. It was argued by some enthusiastic supporters of a protective policy that an indiscriminate use of protection was necessary in order to create an atmosphere favourable to industrial development. But they forgot to count the cost of such a policy or to estimate its probable ultimate gain or loss.

Discriminating Protection. Tariff Board.

The Government of India accepted the policy of 'discriminating protection' as recommended by the Indian Fiscal Commission. They created a Tariff Board to consider the case of every industry that might put forward a claim for protection. The first industry that came under the examination of the Tariff Board was the steel industry. The Tariff Board found that this industry satisfied all the conditions insisted on by the Indian Fiscal Commission, and recommended the grant of protection to it. This led to the passing of the Steel Industry Protection Act of 1924. Protection of other industries followed in quick succession.

Protection to steel industry.

[1] The term 'discriminating protection' was first used by Lala Harkishen Lal, the pioneer of industrial and commercial activity in the Punjab. The use of another wise saying stands to the credit of this great man, *viz.*, 'nurse the baby, feed the child, free the adult'.

Result of protection during 1922-39.

During the seventeen years 1922-39, as the result of protection the production of steel ingots expanded eight-fold, the output of cotton piece-goods increased by nearly two and a half times, the output of matches and paper registered increases of 38 per cent. and 180 per cent. respectively, and cane-sugar represented a tremendous advance from 24,000 tons in 1922 to 931,000 tons in 1938.

Other industries.

Among the other industries to which protection was granted were heavy chemicals (1931), gold thread (1931), salt (1932), silk yarn (1934), etc. In the case of matches, the advantage was taken mainly by foreign capital and enterprise. The excise duty imposed on matches in 1934 reduced to some extent the protection granted to the industry. The protection of the salt industry ceased on the 31st March, 1938, when the Salt (Additional Duty) Act was allowed to lapse. In some cases, the claim for protection was turned down by the Tariff Board. Three of the most important of such cases were cement, coal and petroleum.

It is needless to emphasise the importance of a policy of protection in a country like India, where a rapid development of industries could not possibly be brought about by any other means. The value of the recommendations of the Indian Fiscal Commission (1921-22), restricted though they were in several respects, was appreciated on all sides.

3. PROTECTION OF INDUSTRIES DURING AND AFTER THE WAR

Second World War.

During the Second World War, many new industries were started or developed to meet the urgent requirements of the army and the civilian population. In the absence of imports from foreign countries, these newly-established Indian industries were able to get the whole market for themselves. Some of these industries were considered essential by the Government for urgent defence or general civilian requirements and, as early as 1940, the Commerce Member announced on the floor of the Legislative Assembly that industries which would be started during the War would be protected, if and when necessary, provided they were organized on sound lines. During war-time, such industries received automatic protection due to the operation of direct methods of import control,

necessitated by foreign exchange and shipping space considerations. But when the termination of the War was within sight, the Government of India felt it necessary to chalk out their post-war industrial policy. In April, 1945, they announced their intention of constituting a Tariff Board to investigate into the claims for protection or assistance to war-time industries. It was realised in every quarter that the Triple Formula, adumbrated by the Fiscal Commission of 1922, was too rigid in its application. The duty of the Government to consolidate the broader base which Indian industry had gained during the War was emphasised on all sides. Accordingly, the Government had to liberalise considerably the conditions for the grant of protection. The Tariff Board, constituted in 1945, had two considerations to bear in mind when investigating the claim for protection of any industry:

Tariff Board in 1945

"(1) that it is established and conducted on sound business lines, and

"(2) either, (*a*) that having regard to the natural and economic advantages enjoyed by the industry and its actual or probable cost it is likely, within a reasonable time, to develop sufficiently to be able to carry on successfully without protection or State assistance; or (*b*) that it is an industry to which it is desirable, in the national interest, to grant protection or assistance and the probable cost of such protection or assistance to the community was not excessive."

This Tariff Board worked essentially as an *ad hoc* body and the period of protection to be granted was limited to three years. The total number of cases which were referred to the Board was 49. Within a period of 18 months, the Board reported on 42 cases, including 4 cases of industries which had already enjoyed protection before the War.

an *ad hoc* body.

After the attainment of independence, the Tariff Board was reconstituted, in November, 1947, for a period of 3 years with the following two additional functions:

Tariff Board reconstituted in 1947.

(*i*) to report to the Government, as and when required, factors which led to increase in the cost of production of Indian manufactured goods as against imported articles, and

(*ii*) to advise Government, as and when required, on measures whereby internal production may be secured on the most economical basis.

During these three years, this Tariff Board examined the claim for protection of those industries which had not yet been fully examined by the previous Board and also a few new cases. The Board was required to examine the need for continuance of protection to industries which had been protected before the War and also to those war-time industries which had been given protection in 1946 for 3 years only. As a result of this review, protection to the cotton textile industry was discontinued with effect from 1st April, 1947. The reasons for this discontinuance, as set forth in the Tariff Board's report, were as follows: (1) "the industry has emerged from the War with a very strong financial position and substantial sums have been set aside either as reserves or as compulsory deposits with the Government;" (2) "there is no prospect in the near future of the Indian textile industry being undersold, in the face of the world shortage of cotton textiles and the virtual disappearance of Japan as a competitor in this field." On similar grounds, protection was withdrawn from the paper industry and the iron and steel industry. An assurance, however, was given in all these cases that, should competition revive, a fresh examination of their requirements would be undertaken without undue delay.

Protection to cotton industry discontinued.

Iron and Steel and Paper protection withdrawn.

Forty war industries protected.

As regards industries started during the War, the Tariff Board had to find out which of them possessed potentialities for surviving the artificial conditions created by the War. About 40 industries of this category were picked up for protection, the more important of these being machine tools, grinding wheels, alloy and other kinds of special steel, steel-bailing hoops, ferro-silicon, bichromates, stearic and oleic acid, dry battery, electric motors, plywood and tea chests, steel pipes and tubes, aluminium, calcium chloride, calcium carbide, starch, etc.

Import duties favoured—other forms of protection granted in special cases.

As a general rule, the Tariff Board favoured protection mainly through import duties, because they were anxious to preserve price competition. But in certain exceptional cases, other methods of protection, such as import quotas or even total prohibition of imports, were recommended.

As more and more industries came to be included in the protected list, the Government considered it necessary that

continuous watch over the progress of protected industries should be kept by the Tariff Board. Accordingly, a resolution was published on 6th August, 1948, in which the Tariff Board was authorised to conduct enquiries, as and when necessary, on the effect of the protective duties or other means of assistance and to advise the Government on the necessity or otherwise of modifying the protection or assistance granted. The Tariff Board was required, as and when directed by Government, to conduct enquiries into the cost of production of a commodity produced in the country with a view to determining its price, to suggest anti-dumping measures, to undertake studies on the effects of tariff concessions granted by trade treaties and to keep a watchful eye on the formation of combinations and monopolies in the industries which enjoyed protection. These additional functions of the Tariff Board were considered necessary in the light of criticisms about its working in the past.

Resolution of the 16th August, 1948.

It was being increasingly recognised that the working of the Tariff Board could not be satisfactory so long as the long-term fiscal policy of this country was not clearly laid down by a new Fiscal Commission.

4. FISCAL COMMISSION, 1949-50

The Fiscal Commission of 1921-22 was charged with a simple task. It was called upon to examine the most appropriate tariff policy for India in an economic setting in which free trade was the accepted policy and in which a tariff was to be resorted to only where, for special reasons, deviation from the accepted policy was needed for the encouragement of particular industries. Besides, international commercial relations had not yet been seriously affected by any major restraints on trade other than tariffs, while purposive State action to foster and develop the entire economic life of the people was unknown in this country. In this economic context, fiscal policy became almost indistinguishable from tariff policy. But this policy was inadequate in the changed circumstances and the need for a new fiscal policy was keenly felt. Therefore, in

Changes in circumstances.

April, 1949 the Government of India appointed a Fiscal Commission[1] with the following terms of reference:

Appointment of the Fiscal Commission.

(1) to examine, in consultation with all the interests concerned, the working of the policy of the Government of India with regard to protection of industries since 1922, when the last Fiscal Commission reported; and

(2) to make recommendations as to—

(*a*) the future policy which the Government should adopt in regard to protection to and assistance of industries, and the treatment and obligations, of the industries which may be protected or assisted;

(*b*) the machinery required to implement such policy and

(*c*) any other matter having direct bearing on the effective implementation of this policy.

(3) In considering these issues the Commission will be free to distinguish between short- and long-term aspects of the problem and also advise, in the light of the country's requirements, how far it would be desirable to undertake international obligations of the kind involved in the General Agreement on Tariffs and Trade or the Charter of the International Trade Organisation.

The Commission observed that the case for protection to industries in India no longer required to be argued from the first principles and that the old conception of protection as an alternative of commercial policy had long given way to a more pragmatic approach. The Fiscal Commission approached their task from a new angle of vision and laid down new principles of protection. They remarked at the outset that Tariff protection was primarily a means to an end—one of the instruments of policy which the State must employ to further the economic development of a country. The protection of industries should be related to an over-all planning of economic development—otherwise there might be unequal distribution of burden and unco-ordinated growth of industries. However, until such a plan had been approved, protection

Principles of protection.

[1] The Commission consisted of: Sri V. T. Krishnamachari (*Chairman*): Dr. B. N. Ganguli; Sri B. M. Birla; Sri Ananthasayanam Ayyangar, M.P.; Sri Chaudhury Mukhtar Singh, M.P.; Mr. Khandubhai Desai, M.P.; Sri Ambalal Sarabhai; with Sri D. L. Mazumdar, I.C.S. as Member-Secretary.

to industries should continue to be granted on the principles given below:

"A. Industries, coming under the planned sector immediately, may be grouped under the following classes: Industries under the planned sector.

(1) Defence and other strategic industries,
(2) Basic and key industries, and
(3) Other industries.

Industries falling under group (1) should be protected, whatever the cost may be, on national considerations. Regarding basic and key industries coming under the plan, the Tariff Authority will decide the form of protection and the quantum thereof and will—

(*i*) lay down terms and conditions for the grant of protection or assistance and
(*ii*) review from time to time the extent to which these conditions have been or are being complied with by the industries."

In regard to the third category, the Commission recommended that the criteria to be applied for granting protection should be as follows:

> "Having regard to the economic advantages possessed by the industry or available to it and its actual or probable cost of production, it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or assistance and/or it is an industry to which it is desirable in the national interest to grant protection or assistance and, having regard to the direct and indirect advantages, the probable cost of such protection or assistance to the community is not excessive."

B. As for industries, which were not included in approved plans, the Tariff Authority should examine the claim for protection on the criteria set out above and submit its recommendations to the Government. Industries not included in plans.

C. Where no approved plan existed, the position should be as follows: Where no plan exists.

(*i*) Defence and other strategic industries should be given protection whatever the cost might be;

(*ii*) As for other industries, the criteria to be applied would be the same as those set out in Section A above.

Some specific issues of protectionist policy—

Conditions not to be insisted upon.

(*a*) Local availability of raw materials should not be a condition for the grant of protection, if the industry possesses other economic advantages, *e.g.*, internal market, availability of labour, etc.

Potential export market.

(*b*) It seemed to the Commission legitimate to take into account a potential export market in order to determine the comparative advantages of an industry vis-a-vis its rivals.

Ability to meet domestic demand.

(*c*) As for the condition regarding the ability of an industry to meet the domestic demand, the Commission thought that, although ordinarily a protected industry should be eventually able to satisfy the needs of the entire domestic market, this should not be laid down as a condition of grant of protection and in the short period it would suffice for the Tariff Authority to consider the potentialities of the industry for expansion so as to cover a sizeable portion of the internal market within a reasonable period of time.

Industries producing raw materials.

(*d*) In regard to protection to industry which produced the raw materials or stores of other industries, the Commission observed that industries using the products of protected industries might require compensatory protection. The type of compensatory protection that might be needed in a particular case would depend on

(*i*) the type of raw materials or stores produced,
(*ii*) the nature of the additional burden likely to be imposed.
(*iii*) the proportion that the cost of raw materials or stores would have to bear to the total cost of manufacture of the finished product, and
(*iv*) the nature of demand for the finished product and other connected considerations.

New and embryonic industries.

(*e*) As for protection to new or embryonic industries, the Commission thought, that the need for an assurance of protection, prior to the actual establishment of an industry, was particularly strong in those industries which required heavy

capital outlay or a high degree of specialisation in personnel and plant equipment and were likely to be subjected to intense competition from well organised and established producers abroad. In such cases, the Commission recommended that the Tariff Authority should be asked to examine the facts and estimates relating to the industry and the nature of foreign competition that it was likely to encounter and then advise the Government as to the protection or assistance needed by the industry in the light of the conditions laid down in the Report.

(*f*) In regard to agricultural protection, the Commission recommended that, if national interests so required, agricultural products might be protected but in granting such protection it should be stipulated that Agricultural protection.

(1) the number of commodities should be kept as small as possible,
(2) the principle of selection should be
   (*a*) the importance of the raw materials of industry that they provided and
   (*b*) the volume of employment that they offered,
(3) protection should be on an *interim* basis limited to short periods—never more than five years at a time,
(4) a programme of agricultural improvement must accompany the scheme of protection and form an integral part of it, and
(5) it should be the special responsibility of the Tariff Authority to report to Government annually on the progress of technological improvements in the production of these commodities.

(*g*) On the subject of internal taxation and protection they recommended that (*i*) on broad grounds, the levy of central excises on protected articles would be inadvisable and it should be resorted to only where it was needed for budgetary purposes and no alternative sources equally suitable were available. Central Excises.

(*ii*) As for the levy of sales taxes by States, the Commission recommended that most of the complaints regarding the imposition of sales taxes should be removed under the provi- Sales Taxes.

sions of Article 286 of the Constitution which regulated the levy of Sales Taxes by the States.

Levy of cesses.

(*iii*) In respect of the levy of cesses the Commission observed that, for promoting research, it would be unobjectionable so long as the rates were moderate and the whole of the tax was actually spent on research and not diverted to other purposes.

Prices of raw materials.

(*iv*) On the question of fixation of prices of raw materials the Commission considered it legitimate that the Central Government should fix the prices of raw materials of protected industries by central legislation whenever such price fixation became necessary. Legislation by individual States for this purpose would lead to difficulties.

A permanent Tariff Commission recommended.

The Commission also recommended the establishment of a new, permanent and statutory Tariff Commission, with enlarged powers and functions, the stricter enforcement of the obligations of the protected industries, the setting up of a bureau of consultants and consumers' representatives for effective and efficient management of State enterprises, the starting of an Indian Economic Service, the development of banking facilities, the determination of priorities of economic development, the adoption of a dynamic policy for cottage industries, the ratification of the Havana Charter provided the U.K. and the U.S.A. did so, and initiation of talks for a revision of the Indo-British Trade Agreement of 1939.

Comment.

The Report of the Fiscal Commission (1950) marked an important stage in the development of the economic policy of the country. For the first time a comprehensive policy document made an integrated approach to the issues concerned with the place which protection should occupy in the economic development of India in accordance with the directive principles embodied in the Constitution of India and consistently with the Industrial Policy Statement of April, 1948.

Concluding observation.

India has committed herself to a policy of protection. It is to be hoped that the power already acquired by the Government of India and Parliament will be exercised without creating vested interests and without stereotyping inefficient methods of production. The interests of the people of India as a whole, and not those of any particular section of it, should be the concern of Parliament.

5. TARIFF COMMISSION

In September, 1951, Parliament passed the Tariff Commission Act, 1951, providing for the establishment of a statutory Tariff Commission as recommended by the Fiscal Commission, 1950. On January 21, 1952, the old Indian Tariff Board was replaced by the statutory Tariff Commission appointed under the new Act. The Commission has three members, one of whom is the Chairman. It is an autonomous body free from the interference of the executive as well as influence of the pressure-groups. Although its functions are advisory, it being open to the Government to accept or not to accept its recommendations, it has powers of independent action in the collection and assessment of factual data and the formulation of its own conclusions and findings. The Commission enjoys a quasi-judicial status and has the powers of a civil court so that it can enforce attendance or the production of any document before it which it deems necessary. Government has to report their acceptance or rejection of any recommendation of the Tariff Commission within three months of its submission and, in the case of rejection, to state reasons therefor.

Tariff Board replaced by Tariff Commission in January, 1952.

The functions assigned to the Tariff Commission are much wider than those given to the former Tariff Boards. These include inquiry into, and report on, such matters as (*i*) claim of industries to protection or assistance; (*ii*) variation in the customs or other duties, for the protection of an industry; (*iii*) dumping; (*iv*) abuses of protection by a protected industry; (*v*) effects of protection on the general price-level and cost of living; (*vi*) effect of tariff concessions under trade or commercial agreements on the development of any specified industry; and (*vii*) any anomalies arising out of protection. The Commission may consider claims to protection not only from established industries, but may entertain proposals on behalf of protected industries, which may prove successful on receipt of suitable protection. Except for the purpose of the grant of initial protection or the fixation of prices when it acts only on a reference from the Government, the Commission is authorised, in other cases, to initiate inquiries on its own responsibility.

Functions much wider than before.

An important subsidiary function of the Commission is to investigate and report periodically on the working of protec-

Subsidiary function to investigate

and report on the working of protection.

tion. It thus acts as an "after-care organisation", as the Chairman of the Commission, put it in a recent article. The Commission has indeed wide discretionary powers not only in determining the general principles of tariff making, but the obligations of protected industries. It is not restricted, like the Tariff Board, to the recommending of protection to any specific industry for a maximum period of three years only; it is free to recommend the duration of protection as it thinks fit in particular cases. Recently, it recommended the extension of protection to plywood and tea chests for two years. During the first two years of its existence, the Commission held about 30 inquiries and forwarded to the Government an equal number of reports. It has considered claims to protection or assistance from various industries such as motor vehicle batteries, woollen hosiery, ball bearings and steel balls, transformers, pencils, sericulture, sheet glass, aluminium, glucose, etc. It has carried out price inquiries regarding the retention prices of steel produced by the Mysore Iron & Steel Works, fair retention prices of steel produced by the SCOB, raw rubber, cement, etc. Two recent complicated cases handled by the Commission have been the granting of protection or assistance to the automobile industry of India, and the fixation of a fair ratio of conversion between the ordinary shares of the Steel Corporation of Bengal Ltd. and the Indian Iron and Steel Co. Ltd. which had merged. Not in all cases has the Commission sustained the claim to initial protection or extension of existing protection. In suitable cases it has also recommended 'deprotection' as in the case of the Pencil industry at the end of 1953.

Handling complicated cases.

1955-56.

During the year 1955-56, the Tariff Commission conducted 20 tariff inquiries and 2 price inquiries. Three of the tariff inquiries related to industries seeking protection for the first time and the rest to those seeking continuance of existing protection. The Government accepted the Commission's recommendations for the grant of protection in all the three fresh cases and the continuance of existing protection to 9 of the 17 industries that sought extension.[1]

1956-57.

During the year 1956-57, the Commission conducted 6 tariff inquiries and 4 price inquiries. Two of the tariff inquiries were

[1] *Annual Report on Currency and Finance, 1955-56*, published by the Reserve Bank of India.

in respect of industries seeking protection for the first time; the rest related to industries already enjoying protection. The Government fully accepted Commission's recommendations for the continuance of protection and with slight modification for grant of protection to new industries.

Two fresh applicants were the Isoniazid and Calcium Carbide industries. Of the four price inquiries the two related to the prices of pig iron produced by the Indian Iron and Steel Co. and the Mysore Iron & Steel Works.

The Commission felt that rigid system of price control was likely to have adverse repercussion on the development of automobile industry and suggested a flexible arrangement which would give freedom to the companies to vary prices at their discretion. Periodic investigations, were, however, to be held into their costs and profits to prevent excessive prices being charged and to ensure that the maximum proportion of profits has been ploughed back into reserves.

There can be no doubt that the Tariff Commission has a vital role to play in the building up of a balanced industrial structure in the country, and that the institution of a permanent commission, as distinguished from the *ad hoc* Boards, has been one of the turning points in India's fiscal policy in recent years. Such a Commission is well adapted to the formation of long-range views and a correct appraisal and reconciliation of conflicting claims. Conclusion.

CHAPTER XXXV

THE UNEMPLOYMENT PROBLEM

1. THE EVIL OF UNEMPLOYMENT

Greatest evil of unemployment is moral.

"THE greatest evil of unemployment," says Lord Beveridge, "is not physical but moral, not the want which it may bring but the hatred and fear which it breeds." Employment, however, is not wanted for the sake of employment, irrespective of what it produces. "Employment is wanted," to quote Lord Beveridge again, "as a means to more consumption or more leisure, as a means to a higher standard of life. Employment which is merely time-wasting or merely destructive, will not serve that purpose. Nor will it be felt as worth while. It must be productive and progressive."

A difficult problem.

Economists have devoted a considerable amount of attention to the study of unemployment and its remedies, and governments in most countries have also tried to take steps towards reducing the severity of the miseries caused by it. The Second World War led to a great upsurge of public opinion on the question of unemployment and there is no country to-day which does not give unemployment a very high priority among social problems deserving study, investigation and attention. It has not, however, been possible for anybody up till now to suggest a policy that would prevent unemployment from coming into existence, and eminent writers like the late Lord Keynes emphasised the fact that 'involuntary unemployment' is an inevitable result of an economic system where the rate of interest and the rate of investment are allowed to be determined by uncontrolled competition.

Agricultural and industrial unemployment.

It is difficult to measure the precise extent of the evil of unemployment which exists in agricultural and industrial occupations in India. The number of unemployed persons and of those who may be described as 'under-employed' is very large. The cultivators mostly remain idle for a considerable part of the year, and this fact has to be taken into account in estimating the total volume of unemployment in the country.

In the field of industries, the difficulty of measuring the extent of unemployment is also great. Until recently, there was no permanent labour-population in India, and the unemployed labourers generally used to go back to the villages and help to increase the pressure on the land. Even now, only a small percentage of the total population of India is engaged in factory work, but this percentage is growing steadily year by year.

Very little has, until recently, practically been done in India by the Government for the relief of unemployment among the cultivators and agricultural labourers. Nor will any patch-work remedy be able to achieve much. A strenuous effort to regulate the entire system of agricultural production can bring about a better state of affairs. But the most important and effective solution can come only with a diminution of the pressure on the land. The remedy of the problem of rural unemployment thus lies, partly in the improvement of agriculture and the development of small-scale industries, but mainly in the absorption of increased numbers of people in manufacturing industries.

2. UNEMPLOYMENT: ITS CAUSES AND REMEDIES

Unemployment severe in recent times.

In recent times, the problem of unemployment has become so acute that all sections of the community are brooding over possible solutions, while the Planning Commission has thought fit to start the Second Five-Year Plan so as to provide large employment opportunities. On the basis of the available data, the Planning Commission estimated that early in 1956 there were, roughly speaking, 53 lakh unemployed persons in the country, 25 lakhs in the urban areas and 28 lakhs in the rural areas. However, "the real problem", in the opinion of Sri Deshmukh, "is our inability to utilize our resources to the optimum extent." He prefers long-term solution in the shape of increased investment in industries, to short-term relief given in times of famines and scarcities. A view was expressed in certain quarters sometime ago that if the cost of living could somehow be brought down, the acuteness of the problem would go. This is true. But even if it is possible to bring about such reduction in the cost of living, this would not provide a lasting solution. For a permanent remedy, more employment must

be found through the expansion of existing industries to full capacity and the starting of new ones.

Magnitude.

It is almost impossible to assess the total volume of unemployment with the existing data which are wholly inadequate for the purpose in view. Whatever statistics of employment-seekers are kept by the employment exchanges they do not, it should be noted, bear any relation to the magnitude of unemployment in the country.

Occupational pattern of India.

The Final Report of the National Income Committee has given the occupational distribution of the country during 1950-51, and it is generally assumed that this pattern has not significantly changed. On this thesis the following break down of the working force according to the main occupations is arrived at for 1955-56:—Agriculture and allied pursuits (72·4%), 110·0 million ; Mining and Factory Establishments (2·6%), 4·0 million ; Small enterprises (8·0%), 12·0 million ; Communications, Railways, Banks and Insurances (1·0%), 1·6 million ; Other commerce and transport (6·7%), 10 million ; Government Administration, Profession and Liberal Arts and the rest (9·3%), 14·8 million.

Types of unemployment: agricultural, industrial, middle class and displaced persons.

Generally speaking, the types of unemployment in India do not fall into the patterns which are usual in advanced countries of Europe and America. A rather practical classification in the case of India would be: (*i*) agricultural (rural) unemployment ; (*ii*) industrial (urban) unemployment ; (*iii*) middle class (educated) unemployment ; and (*iv*) unemployment among persons displaced as a result of Partition, which is, however, a temporary phenomenon and will ultimately be merged with the three other categories. Let us discuss these types in the order mentioned.

Chronic situation in agriculture, disguised unemployment.

Unemployment in villages generally occurs when the agricultural season, which covers about half of the year, is over. The type of unemployment in rural areas may be more suitably termed as disguised or covert unemployment because an increasingly large number of population has to do work of low productivity. This shows that there is a great deal of chronic unemployment in agriculture, because of the decaying condition of cottage industries and handicrafts.

Its volume.

Although there have been agricultural labour enquiries and pilot village surveys, and other surveys conducted by the State

Governments, the National Sample Survey, Study Groups under the Planning Commission, no reliable statistics of all India importance have so far been collected in regard to rural unemployment. But the fact remains that their total number is inordinately large. According to the investigation carried out in 1950-51 by the Labour Enquiry Committee, 16 per cent of the cultivating labourers, comprising roughly 24 lakh persons, were totally unemployed, while 84 per cent, or 124 lakhs, were unemployed for 82 days in the year.

Suggestions for the solution of the problem.

The solution of this problem lies in the first place in increasing efficiency in agriculture and secondly, in drawing away surplus labour from the land into industry and other occupations. The rural development programme under the Community Projects and National Extension Schemes aims at creating employment opportunities by (*i*) promoting intensive cultivation by providing better irrigation facilities and up-to-date soil conservation practices through the application of manures ; (*ii*) encouraging migration to places with better employment possibilities ; and (*iii*) promoting handloom and other cottage industries as subsidiary occupations based on local raw materials and local markets, etc. The Government has recently launched a scheme for the permanent resettlement of landless labourers on newly reclaimed lands by establishing mechanised State farms.

Provisions in the First Five-Year Plan.

Of the various measures taken under the First Five-Year Plan to reduce the incidence of rural unemployment mention may be made of the major and minor irrigation works. These were expected to irrigate over 199 million acres. There were large-scale land reclamation schemes which would, to some extent, help to relieve the pressure on the existing land resources. The large-scale unemployment and under-employment in rural areas can, however, be tackled only by providing the village community with other avenues of employment in addition to agriculture. The revival and development of rural industries have, therefore, found a central place in the rural development programmes. These industries have been considered both economically and socially desirable because the requirements of capital and skill are low. For the same amount of capital investment, these industries provide more employment than large-scale industries. The financial provision for village indus-

tries and handicrafts for the period of the Plan was Rs. 15 crores. The cess levied on large-scale industries to provide finance for the development of small-scale industries was to encourage the starting of more small-scale industries and thus provide additional employment. Two other steps which may help in reducing the pressure of employment in rural areas, are: (*a*) the extension of mixed farming and (*b*) the undertaking of public work programmes in slack agricultural seasons.

Industrial unemployment.

Compared to the pre-war level, industrial unemployment increased considerably in the past few years. This was due to the curtailment of the avenues of employment, retrenchment in some industrial concerns and the slow pace of development of new industries. According to some persons contraction of business is also largely responsible for this. Besides the crisis in tea industry in 1952, the textile industry was also hard hit. There were cases of closure of mills, retrenchment and involuntary unemployment in Bombay, Ahmedabad and other places. There were also strikes and lock-outs at Burnpur.

Its magnitude.

To assess the magnitude of the problem in quantitative terms with the existing data on the subject is a very difficult task. Although employment exchanges compile statistics about unemployment which are restricted mostly to the industrial and commercial sectors, these figures cannot be said to represent the actual situation because there is neither any compulsion for the unemployed to register with the exchanges nor is there any obligation on the part of the employers to recruit labour only through these exchanges.

Long-term remedies required.

Unemployment in this sector is not a short-term phenomenon calling for short-term remedies. It is only by a considerable increase in economic activity that it would be possible to solve the problem. This requires an increase in the tempo of industrial development in which both the private and the public sector are concerned. The Planning Commission has expanded the Second Five-Year Plan to provide larger employment opportunities and has launched labour-intensive projects which aim at increasing industrial employment. Private industry is also being encouraged by the Government to expand. To assist in such expansion the Government has set up Industrial Development Corporations.

As a short-term measure, however, rationalisation and retrenchment in large-scale industries should be minimised for a brief period. High salaries should be reduced and there should be more equitable distribution of purchasing power among the employees. It should, however, be borne in mind that thorough industrialisation is the only remedy not only for unemployment in the industrial sector but for other sectors as well. Short-term measures.

The problem of middle class or educated unemployment has assumed a great importance in these days. Too much emphasis on the literary side with too little on the practical side is one of the chief causes of mounting unemployment among the intellectual section of the community. Another reason is that higher education is imparted to all and sundry irrespective of the capacity and suitability of the candidates. Some idea of the intensity of the problem can be obtained from the fact that applicants for clerical jobs far outnumber those in other services. Middle class unemployment.

The gravity of the situation calls for effective measures, both short-term and long-term on the part of the government as well as of the people. First of all, a reorientation of the educational system is necessary. In the primary stage basic education, with the training of the eyes and the hands as its chief object should be introduced. At the secondary stage, literary and technical education should go hand in hand. At the end of the secondary stage, there should be a gradual separation in studies; higher literary education should be imparted only to those who are likely to profit from such study, while adequate arrangements should be made for technical and commercial education for those who are fit for careers in the industrial and commercial fields. Re-orientation of educational system required.

Secondly, positive schemes of assistance should be devised wherein doctors, engineers, technicians, merchants, teachers and other field workers may be tempted to stay in rural areas, whereby both the rural people as well as these professional men will be benefited.

In this regard mention should be made of the Central scheme for educational expansion in the rural areas. This scheme provides for the employment of a large number of teachers in the villages. The rural development programme, as Government assistance.

envisaged by the Community Projects and National Extension Service schemes, is also expected to relieve unemployment among the educated people. The real solution of the problem, however, lies in an intensive as well as extensive development of industries,—large-scale, small-scale and on a cottage basis, and in organising banks, insurance companies and transport of various categories, such as road, rail, air, sea and river. Such development and organisation will give rise to a larger demand for labour, which in its turn will lead to further employment. It should be borne in mind that employment must result in productivity in the real sense of the term.

Unemployment among displaced persons.

The incidence of unemployment among displaced persons is very high and their sufferings are unusually great. While the Government is trying to give some relief to this class of persons, a great deal more remains to be done. It is unfortunate that, while fairly adequate measures have been adopted by the Government to give assistance to the displaced persons in East Punjab, the measures taken in the case of Refugee Rehabilitation in West Bengal have been feeble, half-hearted and inadequate. Thus there is an urgent necessity to deal with the displaced persons in West Bengal with vigour and energy, so that the Refugee problem may be solved without further delay in this State.

Training schemes.

At present there are a few types of schemes for imparting technical and vocational training to displaced persons. In the new townships of Nilokheri, Fulia, Faridabad and Gandhidham training centres are run by the appropriate local authorities.

Grant of loans by State Governments.

The displaced persons are also granted loans to rehabilitate themselves financially. Under the 'small loans scheme,' loans up to a maximum of Rs. 5,000 are given to displaced persons from the urban areas for business, trade, industry and professions. There is, however, no limit to loans for cooperatives run by displaced persons, even though they do not ordinarily exceed the total amount subscribed by the members, or Rs. 2,500 per member, whichever is greater.

In all Rs. 16·75 crores were advanced as loans during 1952-53. Of this, Rs. 10·79 crores were given to displaced persons from West Pakistan and Rs. 5·96 crores to those from Eastern Pakistan. Since then the Government have been spending

fairly large sums for the relief of the displaced persons. But these sums have not been adequate for meeting the needs of the vast number of refugees in West Bengal. It is also possible that the sums have not actually been spent in the proper manner.

Financial help from the Centre.

The Rehabilitation Finance Administration of the Centre gives loans of Rs. 5,000 to individuals, partnerships, private limited companies, Cooperative Societies and Joint Stock Companies.

Up to the end of 1956-57, a sum of Rs. 345·17 crores was spent for the benefit of the displaced persons under the heads—Grants, Loans, Housing, Establishment, Compensations and Miscellaneous.

Employment position during Second Five-Year Plan.

Allowing for frictional unemployment, which is inevitable in a growing economy, it is possible to suggest that the backlog of urban unemployment may be about 2·5 millions. To this backlog is to be added the number of new entrants to the urban labour force. It is estimated that in 1956-61 about 3·8 million persons would be added on this account. It is, however, difficult to distinguish unemployment from under-employment in rural areas. New entrants to the labour force during the next five years have been estimated at 10 millions. Deducting from this the estimated 3·8 million entrants into the urban force, new entrants to the rural labour force in 1956-61 may be about 6·2 millions. The number of job opportunities which have to be created if unemployment is to be eradicated during the Second Plan period is shown below:

Total for new entrants to labour force 10 million consisting of urban 3·8 million and rural 6·2 million; and total backlog of unemployed 5·3 million comprising urban 2·5 million and rural 2·8 million.

Taking into account the magnitude of existing unemployment and additions to labour force, it would be incorrect to hold out the hope that full employment could be secured by the end of the Second Plan. In the context of an economy with relative abundance of labour, a general bias in favour of comparatively labour intensive techniques is both natural and

desirable. Nevertheless, specific investment decisions involving a choice between alternative techniques have to be made in the light of certain considerations. The area, where a conflict in the use of different techniques arises, is not as large as is sometimes supposed. In many cases the choice appears to be obvious, dictated purely by technological facts of production. There is no choice, for instance, in the case of heavy industries, where no one would suggest that considerations of size and technology should be set aside to emphasize employment. Again, the need for the setting up of such industries cannot be questioned in view of their place in the larger interests of developing the employment potential in the long run. In agriculture, except under certain conditions, in the present stage of development the possible economic advantages of mechanisation may be more than offset by the social costs of unemployment that such mechanisation would involve.

Construction of roads, housing, railways and the like have an existing pattern of use of machinery which has been evolved over a period of years consistent with the elimination of arduous human labour, which current social values would refuse to accept. This pattern will have to continue during the next plan period. In the short run the stimulation of construction activity is considered to be a solution for unemployment in developed economies. But in India such investment cannot be encouraged beyond a point. Investment in constructions tends to be 'lumpy' in character and large displacements of labour take place as work nears completion.

It is only when we come to the production of consumer goods that the choice between techniques of production may raise difficult issues. The use of capital intensive techniques irrespective of other considerations involves a double loss in the form of (*a*) displacement of labour which has in any case to be maintained and (*b*) a greater draft on the scarce resources for investment, particularly, foreign exchange resources. In an underdeveloped economy, the balance of advantage lies decidedly in favour of labour intensive techniques.

The above considerations were the guiding factors in the choice of schemes to be included in the Second Plan. The

additional employment emerging from these projects is given below:—

ESTIMATED ADDITIONAL EMPLOYMENT

		(In lakhs)	
1.	Construction	21·00	
2.	Irrigation	0·51	
3.	Railways	2·53	
4.	Other transports & Communications ...	1·80	
5.	Industries and Mining	7·50	
6.	Cottage & Small-scale industries ...	4·50	
7.	Forestry, Fisheries, N. E. S. and allied schemes	4·13	
8.	Education	3·10	
9.	Health	1·16	
10.	Other social services	1·42	
11.	Government services	4·34	51·99
12.	Plus 'Others' including trade and commerce @ 52% of the total		27·04
	Grand Total ...		79·03
			or say 80·00

3. NATIONAL EMPLOYMENT SERVICE

Employment exchanges.

The employment exchanges, which were started in 1945 with a view to re-settling demobilised war personnel, were entrusted with the task of finding employment for displaced persons in 1947. The scope of their activities was enlarged later. The exchanges at the centre were placed under the control of the State Governments with effect from April 1,

1957. The following table throws some light on certain aspects of the employment exchanges during 1955 and 1956:

DETAILS OF THE WORK DONE BY THE EMPLOYMENT EXCHANGES[1]

Item	1955	1956
1. Applicants in need of employment assistance at the end of the year ...	6,91,958	7,58,503
2. Placements offered	1,69,735	1,89,855
3. Job openings which became available to employment seekers through the exchanges	2,80,523	2,96,618

Employment exchange statistics are, however, of limited value, for they cover mainly the urban areas, and as only a portion of the unemployed is actually registering themselves with the exchanges even where these exist.

The exchanges give priority to the scheduled castes, retrenched Government servants and displaced registrants in finding employment. Recently, the employment exchanges have opened a new section with a view to finding employment for surplus and retrenched class I and class II Gazetted and Commissioned Officers. A few employment exchanges operate mobile sections for helping employment seekers in rural areas far from the location of exchanges.

Training Schemes.

The training schemes of the employment exchanges, drawn up in 1946, envisaged technical and vocational apprenticeship and training for ex-service personnel only. This scheme came to an end in 1950 and thereafter the Government drew up a technical and vocational training scheme for adult civilians. The training, however, imparted by these centres is not of a sufficiently high order. The following table shows the number of persons who received training in them during 1955 and 1956.

[1] *Report of the Ministry of Labour and Employment, Government of India for 1956-57.*

DETAILS OF THE WORK DONE UNDER THE TRAINING FACILITIES OF THE MINISTRY OF LABOUR[1]

Item	1955	1956
1. Number of seats available for training of craftsmen in:		
(a) Technical	8,670	9,066
(b) Vocational	1,920	1,872
2. Additional seats available for displaced persons under arrangements with Ministry of Rehabilitation ...	3,802	3,463

In addition to the training of craftsmen, a central training institute is being run at Koni-Bilashpur in Madhya Pradesh for training instructors and supervisory staff. This is the only institute of its kind in Asia.

A committee known as the Training and Employment Services Organisation Committee under the chairmanship of Sri Shiva Rao, M.P., was appointed on November 10, 1952, to enquire into the future set-up of the Employment Exchange organisation and its training schemes. The Report was submitted to the Government on April 28, 1954. It contained detailed recommendations regarding the administrative set-up for this organisation, its methods and procedure of working. It also reviewed the various schemes sponsored by the Resettlement Organisation for technical and vocational training, and for training of craftsmen and instructors and made recommendations thereon. Shiva Rao Committee.

One of the recommendations of the Committee was to make the exchanges permanent, but this would be a very unwise step to take. These exchanges should be abolished as soon as the problem of displaced persons is solved, both on financial and other grounds. It would be most undesirable to utilise these exchanges for the purpose of recommending personnel for appointment in different departments of the Central and State Governments for the following among other reasons: In the first place, the recommending officers of the exchanges do not know the exact requirements of the departments concerned and they are not competent to judge the capacity of the candidates. Secondly, the training imparted Recommendations.

[1] *Report of the Ministry of Labour and Employment, Government of India for 1956-57.*

by these exchanges are of such a low grade that the persons who have passed out of these centres are not likely to be fit for permanent appointment to any but the lowest cadres in the Government services. Lastly, the authorities of the different departments of the Government, who are the best persons to judge the qualifications and suitability of the candidates for appointment, should be left free to choose their personnel by interviews, special examinations and other methods without the intervention of the Employment exchanges.

Criticism.

4. FULL EMPLOYMENT

Views of eminent economists.

While very little effort has so far been made in India to attain even the limited objective of reducing unemployment, some of the industrially advanced countries are placing before them the high ideal of Full Employment. Lord Beveridge and other eminent thinkers consider Full Employment attainable even while the conduct of industry, in the main, is confined to private enterprise. The preliminary step taken by the United Nations in this regard is worth noticing.

U. N. Committee's opinion.

In response to a Resolution of the Economic and Social Council of the United Nations, adopted on August 11, 1949, a Report was prepared towards the end of 1949. This Report to the Secretary General of the United Nations was an important document; for, in a co-ordinate fashion, it analysed and made prescription for domestic full employment, short-run stability in foreign trade and long-run equilibrium between the dollar and non-dollar areas.

The proposed measures for the maintenance of domestic full employment might be summarised in four groups:

(1) measures to stabilise the level of investment, including encouragement to private investment and direct public enterprise;

(2) measures to stabilise, or to expand, the level of consumers' outlays, including 'built-in' stabilisers and a variety of fiscal supports to consumption;

(3) measures to avoid inflation, including a reversal of expansion techniques, if necessary, and institutional arrangements to avoid monopolistic exploitation by special groups of full-employment conditions; and

(4) measures to stabilise employment and income in distinctively export industries, including subsidies to domestic consumption of their products and international price (or direct-income stabilisation) schemes, for primary products.

The suggested mode of operation of this programme was the following:

(1) That in addition to the full-employment target (which might be defined as a range) a 'signal' level of unemployment in cyclically sensitive industries should be adopted.

(2) Upon the appearance of 'signal' unemployment for three successive months the government would be obliged to bring into play counter-measures consisting essentially in tax reductions, designed to reduce average unemployment to the mean of the target range.

(3) These automatic counter-measures were regarded as simply a part of the whole machinery of full-employment policy, which each country would develop in terms of its own peculiar problems and institutions. The application of the automatic counter-measures would symbolise that the programme as a whole had failed to meet its full objective, and that further measures, quite possibly beyond the automatic measures, were required.

The need for vigorous State-action is urgent in India. Suggestions.
Adequate arrangements should be made to collect statistics and information about the extent and the nature of unemployment, and the Central Government as well as the State Governments should adopt effective measures to combat the evil. Private enterprise can never be expected to operate to the extent and in the manner most desirable from the standpoint of the unemployed. It is because of this fact that the necessity of State-help is greater in this particular field than in any other.

APPENDIX A

FINANCIAL YEAR, CURRENCY, WEIGHTS AND MEASURES

(1) The Indian financial year is from April 1 to March 31.

(2) The currency unit of the Indian Union is the Rupee. India has adopted the decimal coinage, the Rupee being divided into 100 equal parts, called 'naya paisa'. The abbreviation for rupees is 'Rs' and for 'naya paisa' it is 'nP'. A rupee is equivalent to 21 U.S. cents or 1 sh. 6 d. sterling.

(3) A crore = 10 million (Rs. 1 crore is equal to U.S. $2.1 million or £750,000 sterling). A lakh = one-tenth of one million.

(4) A Tola = three-eighths of an ounce.

APPENDIX B

INDEX NUMBERS OF WHOLESALE PRICES

	(Wholesale Prices (General Purposes Index)* Year Ended August, 1939 = 100					
	Food Articles	Indus. Raw Matrls.	Semi-manufactured Articles	Manufactured Articles	Miscellaneous	General Index
1947-48 ...	306·1	377·5	261·6	286·4	456·2	308·2
1948-49 ...	382·9	444·8	327·3	346·1	525·2	376·2
1949-50 ...	391·3	471·7	331·6	347·2	570·7	385·4
1950 51 ...	416·4	523·1	348·9	354·2	707·4	409·7
1951-52 ...	398·6	591·9	374·4	401·5	721·6	434·6
1952-53 ...	357·8	436·9	343·8	371·2	614·1	380·6
1953-54 ...	384·4	467·7	359·2	367·4	686·6	397·5
1954-55 ...	339·8	436·2	350·3	377·4	612·4	377·4
1955-56 ...	313·2	419·7	338·2	372·9	546·4	360·3
1956-57 ...	388·5	501·9	402·3	384·6	559·3	414·0
December 1956	413·9	517·1*	417·5	389·9	590·3	428·8*
8-6-1957 ...	435·7	530·9	414·5	392·3	570·7	439·2
15-6-1957 ...	421·3	543·9*	413·3*	393·1	571·1	437·5
22-6-1957 ...	430·5	539·9*	410·6*	392·4*	563·5	437·3
29-6-1957 ...	438·1	540·9	413·0	391·6	601·5	441·2
6-7-1957 ...	440·1	543·3	410·6	392·8	617·6	442·6
13-7-1957 ...	440·8	545·3	412·0	392·1	618·6	443·1
20-7-1957 ...	441·5	541·3.	415·3	392·3	622·4	443·5

* Economic Adviser's Series.

APPENDIX C

CONSUMER PRICE INDEX NUMBERS FOR WORKING CLASS

(August, 1939 = 100)

Period	Bombay	Delhi	Bengal	U.P.	Central Provinces		Madras	E. P.	Bihar	All India†
	Bombay	Delhi†	Calcutta	Kanpur	Nagpur	Jubbulpur†	Madras June 1936—100	Ludhiana†	Jamshedpur†	
1939 (Aug.-Dec.) ...	103	—	—	105	104	—	106	—	—	—
1948	288	132	339	471	372	146	309	168	136	134
1949	292	132	348	478	377	151	323	164	138	138
1950	298	132	349	434	372	153	325	165	145	138
1951	314	142	370	451	391	168	334	167	160	144
1952	321	143	351	441	380	150	330	151	154	141
1953	346	140	349	453	387	151	351	147	156	145
1954	342	138	327	408	373	139	341	148	140	138
1955	322	130	323	371	364	133	321	134	135	132
1956	336	142	347	424	397	151	356	152	146	145
1957 January ...	339	150	354	438	411	156	372	157	144	149
February ...	341	150	350	435	411	158	369	157	148	148
March	340	150	348	433	415	158	367	158	148	148
April	340	148	345	427	415	162	369	161	152	148
May	347	151	352	441	—	—	369	—	—	150

† Base 1944 = 100.

APPENDIX D

FINANCE MINISTER'S BUDGET SPEECH, 1957-58.

(SUMMARY)[1]

In presenting the Union Budget for 1957-58 in the *Lok Sabha* on May 15, 1957, the Finance Minister, Sri T. T. Krishnamachari, prefaced his taxation announcement with a brief enumeration of the objectives of the Government's taxation policy. He said four criteria guided that policy.

These were: (*a*) a sizable addition to public revenues; (*b*) incentives for larger earnings and more savings; (*c*) restraining of consumption over a fairly wide field so as to keep in check domestic inflationary pressures and to release the resources required for investment; and (*d*) initiation of such changes in the tax structure as would make tax yields progressively more responsive to increased incomes and facilitate an orderly development of the economy with due regard to the social objectives the country has adopted.

Mr. Krishnamachari said: "I might begin first with my proposals in the field of indirect taxation. Taking Customs first, it will be appreciated that the scope for raising additional revenues from them is limited. Members are aware of the severe restrictions we have imposed on imports in order to curtail our foreign exchange expenditure. Moreover, import duties on most of the so-called luxury articles are already fairly high and the duties on capital goods and industrial raw materials have necessarily to be kept as low as possible. The proposals I have made envisage the raising of the rates of duty by small amounts on about 90 items. I have also taken this opportunity to rationalize the rates in the Customs Tariff which run into several hundred items. There is considerable diversity in these rates which is of no real significance and is in fact administratively cumbrous. I have tried to give the

[1] *The Statesman*, May 16, 1957.

Tariff Rates a simpler form and in this process the surcharges have been merged into the basic rates. I have also availed myself of this opportunity to convert the rates of duty, both in the import and the export tariff, in terms of decimal coinage. No other change is being made in the export duties. Altogether, my proposals in respect of import duties will yield a revenue of about Rs. 6 crores spread over a large number of items, too numerous to mention here.

"I now come to Union Excise Duties. I may say at once that I have fairly substantial proposals under this head, and in doing so I have in mind the double objective of restraining consumption and of giving a fillip to exports. Excise duties.

"I propose the following increases:

(I) *Motor Spirit*: The existing Excise Duty which works out at 98 nP. per Imperial Gallon, inclusive of surcharge, be raised to 125 nP. per Imperial Gallon. This will yield an additional revenue of Rs. 6·65 crores in a full year.

(II) *Refined Diesel Oil*: The existing duty of 25 nP. per I.G. be raised to 40 nP. per I.G. This is estimated to yield Rs. 1·96 crores in a full year.

(III) *Diesel Oil (not otherwise specified)*: The duty be raised from Rs. 30 per ton to Rs. 40 per ton, the additional yield from which over a year is estimated at Rs. 35 lakhs.

(IV) *Kerosene*: The existing duty of 18·75 nP. per I.G. be increased fractionally to 20 nP. per I.G. This will yield Rs. 20 lakhs in a full year.

(V) *Cement*: The existing duty of Rs. 5 per ton be raised to Rs. 20 per ton the estimated annual yield being Rs. 6·7 crores.

(VI) *Steel Ingots*: The existing duty of Rs. 4 per ton be raised to Rs. 40 per ton, yielding on an annual basis Rs. 5·7 crores.

(VII) *Sugar*: The existing duty of Rs. 5·62 per cwt. be raised to Rs. 11·25 per cwt. This will yield Rs. 18·55 crores in a full year.

(VIII) *Vegetable non-essential oils*: The duty of Rs. 70 per ton be raised to Rs. 112 per ton. This will mean an increase from about 3 nP. to 5 nP. per lb. The estimated yield on this account is Rs. 3·15 crores in a year.

(IX) *Tea*: The duty be raised as follows:—(*a*) Loose Tea—from 6·25 nP. per lb. to 10 nP. per lb.; (*b*) Package Tea, converted from duty-paid loose tea—from 18·75 nP. per lb. to 35 nP. per lb.; (*c*) package tea—from 25 nP. per lb. to 45 nP. per lb. This will yield an additional revenue of Rs. 2·45 crores in a year.

(X) *Coffee*: The existing duty be raised from 18·75 nP. per lb. to 35 nP. per lb., the estimated additional yield being Rs. 80 lakhs.

(XI) *Unmanufactured Tobacco*: The duty be raised as follows: (*a*) if other than flue-cured and used for the manufacture of cigarettes or smoking mixtures for pipes and cigarettes—from 56 nP. per lb. to 75 nP. per lb.; (*b*) if not flue-cured and not actually used for the manufacture of cigarettes or smoking mixtures for pipes and cigarettes, and such tobacco cured in whole leaf form and packed or tied in bundles, hanks or bunches or in the form of twists or coils—from 37 nP. per lb. to 50 nP. per lb.; (*c*) if other than flue-cured and not otherwise specified from 87 nP. per lb. to 100 nP. per lb. The additional yield from these increases aggregates Rs. 6·15 crores in a full year.

(XII) *Matches*: The existing duties be raised so as to permit of sale of match boxes at 6 nP. and 4 nP. per match box of 60's and 40's respectively. The gain to revenues in a full year by these increases is estimated at Rs. 6·2 crores.

(XIII) *Paper*: My proposals involve an increase in the existing duty on various types of paper, the aggregate additional yield being estimated at Rs. 2 crores on an annual basis.

These proposals in respect of Central Excise Duties are estimated to yield Rs. 60·80 crores in a full year. For the remaining part of the current year, their yield is estimated at Rs. 53·20 crores, out of which the share of the States will be about Rs. 4·2 crores in respect of tobacco and matches.

In recommending these increases, I have kept in mind the need for a balanced increase among the various items I have listed. The increases proposed in respect of cement and steel are large but they are warranted by the rapid increase in the demand for them within the economy and the situation of growing shortage and the consequent increase in retail prices which we are facing. The increase in the duty on sugar has

the same objective. The increase we made last year in the excise duty on cloth, namely, to restrain domestic consumption in the interest of larger exports.

In the case of matches, the existing duties were fixed with a view to ensuring sale at three pice per match box of 60's and two pice per match box of 40's. Under the decimal coinage system the equivalent of these prices comes to 4·7 nP. and 3·1 nP., respectively and this would have meant in effect a retail price of 5 nP. and 3 nP., respectively. With the increase in excise duty now proposed, the retail price will be 6 nP. and 4 nP., respectively.

Tobacco Committee.

For revenue purposes, the rates of duties on such tobacco are also being somewhat enhanced. With the proposed increase in the rate of duty on these two types of tobacco the rate of Excise Duty on unmanufactured tobacco for use in the manufacture of cigarettes is also being proportionately raised.

Paper tariff.

The tariff relating to paper has been rearranged with a view to greater rationalization and to absorb the higher profit margins now developing in the retail trade and the rates of Excise Duty which had been kept deliberately low in the initial stages are being enhanced.

Finally following the increases in the rates of Excise Duty on vegetable non-essential oils and strawboards and millboards, the existing slab exemption in favour of small producers of these commodities are being suitably revised by executive notifications.

Direct taxation.

"I turn now to direct taxation. First I propose to make certain adjustments in personal Income-Tax and Super-Tax rates. Until these changes have followed a standard pattern which I think, need a fundamental change. It is necessary to recognize that the basic rates should apply to the person who earns his income—that is, sweats and toils for it, and that others who derive their income from property and investments—that is without making any direct effort should be made to pay more by a surcharge. Under the present system there is no provision for earned income allowance for Super-tax. For Income-Tax there is an allowance of 20 per cent subject to a maximum of Rs. 4,000 for earned incomes not exceeding Rs. 25,000. For incomes in excess of this amount, the allowance of Rs. 4,000 is reduced at the rate of 20 per cent

of the excess over Rs. 25,000 so that for earned income of Rs. 45,000 the allowance is reduced to nil.

"I now propose to change this system altogether, applying a standard schedule of rates to all earned incomes and imposing a higher surcharge on unearned income. I have come to the conclusion that our existing rates of direct tax at top levels deprive the tax structure of all flexibility.

"It is said that they tend to diminish the incentive for work but I am aware that they encourage large-scale evasion. It is now recognized that the very high rates of direct taxation in the top income brackets in many countries of the world are in practice tolerated or tolerable only because of considerable evasion that takes place. In other words, the high rates tend to be applied to a corroded tax base.

"I now propose a revised schedule of these rates and introduce a new scheme of surcharge levy which will mean that the total of the Income-Tax, Super-Tax and Surcharge for the highest slab will be brought down from the existing level of 91·8 per cent to 84 per cent for unearned and 77 per cent for earned incomes. The surcharge will be 5 per cent on the tax computed at the standard schedule rates for earned incomes up to Re. one lakh and 10 per cent on incomes in excess of that sum. For unearned incomes there will be a uniform surcharge of 20 per cent over the standard schedule rates.

"When a person's income is partly earned and partly unearned the unearned income will be considered to belong to the slab in which the earned income ends and to higher slabs where necessary. The rates for the lower slabs have been adjusted in keeping with this change in respect of top slabs. To provide relief to the middle classes, I propose that no surcharge on unearned income be levied where the total income does not exceed Rs. 7,500. The reduction in the rates of direct taxation will cost the Exchequer Rs. 7½ crores. This reduction should, however, be judged in the light of the other changes in direct taxation which I mention later.

Taxable minimum.

"I propose also to widen the present Income-Tax base by reducing the taxable minimum from Rs. 4,200 to Rs. 3,000. The minimum limit had been raised over the past few years mainly for administrative reasons. An income of Rs. 4,200,

modest though it is in absolute terms, is quite a large multiple of the average level of incomes in the country.

"It is reasonable to expect that those with an income over Rs. 3,000 should also make their contribution, however small, to the Exchequer, and should come within the range of direct taxation.

"As development proceeds, there will, I expect, be a large and progressive increase in the number of incomes within this range and I think it is essential if the Exchequer is to benefit proportionately from the expansion of incomes consequent on development, that these incomes are brought within the Income-Tax range. I, therefore, propose to place the exemption limit now at Rs. 3,000 for individuals and Rs. 6,000 for Hindu undivided families. I propose, however, to couple this with an increased allowance for married people. The extra tax-free slab of Rs. 1,000 which at present applies to married people will now be raised to Rs. 2,000. The wider coverage of Income-Tax consequent on this set of proposals will bring in about Rs. 5 crores this year.

Companies tax.

"My next proposal relates to the taxation of companies. I propose to raise the Income-Tax payable by companies from the present level of four annas in the rupee to 30 per cent and the Corporation Tax from the present level of 2 annas 9 pies in the rupee to 20 per cent. The net effect of the proposal to increase Income-Tax on companies will not be very significant. It will to some extent help us to check tax evasion.

"The need for corporate savings is as great as ever. In view, however, of the increase proposed by me in the rate of Corporation Tax, I propose to reduce the Excess Dividends Tax to 10 per cent on distribution of dividends between 6 per cent and 10 per cent of the paid-up capital, to 20 per cent on distribution between 10 per cent and 18 per cent of the paid-up capital, and to 30 per cent on the balance.

"During the debate on the Finance (No. 3) Bill introduced by me last December, reference was made by certain members to the stimulus that my proposals were likely to give to bonus share issues. I was aware then that with the increase in the rates of Excess Dividends Tax and the introduction of the Capital Gains Tax, there should be some change in the rates of Tax on Bonus Issues. I have considered this matter and

propose to raise the tax thereon from the present level of 12½ per cent to 30 per cent.

Super-tax changes.

"At present, rates of Super-Tax for inter-corporate dividends are about 17 per cent for Indian companies and 20 per cent for foreign companies. With the increase in the basic rates of Corporation Tax, these rates require adjustment.

"I propose accordingly, to reduce the rate of Inter-Corporate Super-Tax to 10 per cent for both Indian and foreign companies on dividends received from Indian subsidiaries. The effect of this will be that, so far as foreign companies working through subsidiaries are concerned, the total tax payable by them will remain practically unaltered.

"Similarly, for foreign companies operating through branches and earning other incomes, the rate of Corporation Tax will be reduced from 36% to 30%. I expect that, with these changes, there will be some encouragement to the investment of foreign capital in India.

"My next proposal with regard to companies relates to the tax on undistributed profits of companies in which the public are not substantially interested. This tax has frequently been the subject matter of considerable argument. The principle on which the tax is based is unexceptionable, namely, that individuals having incomes in the higher brackets should not be allowed to avoid payment of Super-Tax by forming close corporations and not distributing their profits in such corporations.

"However, in the context of our development plans, we have to balance against the need to prevent Super-Tax avoidance the needs of companies for funds required for expanding industrial activities.

"I propose therefore to reduce to 45 per cent the minimum percentage of available profits which an industrial company of the above type should distribute in order to avoid the penal consequences of inadequate distribution; for non-industrial companies the percentage will continue to be retained at 60 per cent. For a company which derives profits partly from industrial activities and partly from other activities, the minimum distribution required will be 45 per cent of available industrial profits and 60 per cent of other available profits.

Investment companies will be required to distribute 100 per cent as usual.

"In cases where the accumulated profits and reserves are not less than the paid-up capital or the value of the fixed assets, the accumulated profits and reserves are not less than the paid-up capital or the value of the fixed assets, the minimum percentage required to be distributed is at present 100 per cent for all companies. I propose to reduce the percentage to 45 per cent for industrial companies and 90 per cent for others. With these reductions in the minimum amount required to be distributed, it will be unnecessary to continue the present scheme of adjudication by the Commissioner of Income-Tax and the Board of Referees on the business needs of companies seeking total or partial exemption from the operation of the provisions relating to minimum distribution.

"There are certain other minor changes proposed upon which I do not wish to dilate here. These relate to exemption from Income-Tax of employer's contribution to a recognised provident fund, increase in the percentage of the income that will qualify for rebate of Income-Tax if saved in the provident fund or insurance, limitation on the carry-forward of losses, etc. I have also taken the opportunity of redrafting the provision relating to deposits to be made by companies of a portion of their undistributed profits and development rebate and depreciation allowances so as to bring out the Government's intention more clearly.

"Altogether, the changes I propose in the taxation of companies will bring in additional receipts amounting to Rs. 7½ crores.

"I come now to two new tax measures designed to alter the tax structure in a way that will ensure a more effective and at the same time a more equitable basis for taxation. Levy on wealth.

"My first proposal is to levy a tax on wealth. It is recognized that income as defined by existing income tax laws and practice is not a sufficient measure of tax-paying capacity and that the system of taxation on incomes has to be supplemented by taxation based on wealth. This is more equitable and it also promises over a period, to reduce the possibilities of tax evasion. I mentioned earlier the reliefs in income-tax at top levels of income which I am introducing this year. These reliefs

are meant as an encouragement to larger effort and greater initiative on the basis of which alone a healthy and progressive economy can be built up. It is necessary at the same time to adopt other measures which are egalitarian in intent but which do not have a disincentive effect. The tax on wealth that I am now proposing is one such measure. This tax will be payable by individuals, Hindu undivided families and companies.

"In the case of individuals, values up to Rs. 2 lakhs and in the case of Hindu undivided families values up to Rs. 3 lakhs will be exempted. In respect of wealth exceeding that amount the rate will be ½ per cent for the first Rs. 10 lakhs, 1 per cent for the next Rs. 10 lakhs and 1½ per cent on the balance. This will thus be a progressive tax which, together with the surcharges I have recommended in respect of Income-Tax on unearned incomes, will contribute towards a more effective taxation of the richer classes without diminishing incentives to earn in the process.

"In the case of companies, there will be no tax on assets up to a value of Rs. 5 lakhs; on values beyond that the rate will be ½ per cent. The new "wealth tax" is intended primarily as a measure of personal taxation but in the peculiar economic structure of India I consider it advisable not to exclude companies from the purview of this tax. However, the rate of this new tax has to be low. This is why I have proposed a flat rate of only ½ per cent on assets above the exemption limit I have just mentioned.

"Certain property will be exempted from this tax. Some of these are: agricultural property; property belonging to charitable or religious trusts; works of art; archaeological collections not intended for sale; balances in recognized provident funds and insurance policies; personal effects, including furniture, cars, jewellery, etc., up to a maximum of Rs. 25,000, and books and publications not intended for sale.

"With a view to achieving simplicity in the procedure for evaluating the various kinds of assets which form part of a business undertaking, it is proposed as far as possible to treat a business undertaking as a whole as a single unit for valuation. Other assets will be taken at their market value. The yield from this tax is estimated at about Rs. 15 crores.

"A tax on expenditure has no backing as yet of historical experience. In the present circumstances, a small beginning is being made. It is proposed to levy this tax only on individuals and Hindu undivided families whose income for income-tax purposes is not less than Rs. 60,000. The tax will be imposed on all expenditure incurred from whatever source it may be, in excess of certain sums which will vary with the size of the families. The amounts excluded are a basic amount of Rs. 24,000 for an assessee and his wife and Rs. 5,000 for each dependent child.

Tax on expenditure.

"The rate of tax will be based on a slab system, the rate for each slab increasing progressively with the increase in the level of expenditure. Thus for expenditure up to Rs. 10,000 the rate will be ten per cent and for higher slabs, the rate will increase progressively.

"Railway fare rates increase will be 5 per cent up to 30 miles, 15 per cent for distances between 31 miles and 500 miles and 10 per cent for longer distances. No tax will be levied on season tickets. The yield of this tax is expected to be Rs. 14 crores in a whole year. In the current year the yield will be about Rs. 8 crores. The proceeds of the tax, less the amount attributable to Union territories, will have to be distributed entirely to the States. Before proposals in regard to the actual distribution of the proceeds of this tax are brought before Parliament it is proposed to seek the advice of the Finance Commission.

Railway fares.

On post cards, the existing rates of 5 nP for a single and 10 nP for reply post cards will be raised to 6 nP and 12 nP, respectively. Postage on local post cards will be raised similarly from 3 nP for single and 6 nP for reply post cards to 4 nP and 8 nP, respectively. For packets containing bona fide books only, the postage on the initial weight slab of five tolas will be reduced from the existing rate of 6 nP to 5 nP, but on other packets, the existing rate of 6 nP will be raised to 8 nP.

Postal rates.

The postage on additional weight slabs, in both these cases, will remain unchanged. The rates on parcels will be increased from the existing level of 50 nP for every 40 tolas or fraction thereof, to 60 nP for the first 40 tolas or fraction thereof and 50 nP for every additional 40 tolas or fracton thereof. On

inland telegrams, the charge for every additional word over the minimum of eight words will be raised from 7 nP to 8 nP for ordinary telegrams and 14 nP to 16 nP for express telegrams. The additional revenue expected in the current year from these increases is Rs. 85 lakhs.

In making these proposals the Finance Minister recalled the overall budgetary deficit of Rs. 365 crores left uncovered in his Budget speech last March. This deficit, he said, was too large in the context of the present economic situation. "It was vital for us to find ways and means of bringing down this deficit significantly," he said.

Mr. Krishnamachari said that India was pledged to move in the direction of a socialist society. This meant that the country wished to develop an efficient system of production and an equitable pattern of income and wealth which would ensure a well-balanced progress. Such a system required a strengthening of incentives to work and save. This was the rationale of his tax concessions on earned incomes.

His proposals, the Finance Minister said, in respect of company taxation were designed not merely to increase revenues but also on balance, to encourage the ploughing back of profits through a check on dividend distribution. These measures were not intended to curtail genuine investment in the private sector though it would not be unreasonable to assume that a slight slowing down for a short period will not, in the present circumstances, be undesirable. There were, however, he said, other devices to regulate private investment. He wished therefore to retain the bias in the tax structure in favour of corporate investment. It was for this reason, he said, that he had left untouched the existing liberal depreciation allowances and the system of development rebates, which, it was recognized on all hands, were a powerful incentive for investment. He had also readjusted the tax rates to encourage foreign investment. He recognized that the shareholder of the investor expected to get a reasonable return on his capital, but he also thought that under modern conditions there was even greater need for providing incentives for those who worked and managed concerns and thus fell within the category of earned income earners.

Concluding, the Finance Minister said, "I am aware that the policies and proposals I have placed before you add up to a varied and somewhat formidable bill of fare. But the exigencies of the situation demand nothing less.

'The task before us is not merely one of raising resources for the immediate needs of the Plan. We have also to attempt at the same time a rationalization of the tax structure so that it can sustain a mounting crescendo of developmental effort in the years to come. Sacrifice on a nationwide scale and injustice or excessive inequality go ill together. And that is why I have endeavoured to present a Budget to snatch from the needs of the moment an opportunity for imparting a new turn to our tax structure towards greater efficiency and equity.

"Heavy responsibility rests on us all at this juncture. I have presented to the House an approach in terms of policies and of proposals which is, to the best of my judgment, appropriate to this responsibility. I hope that when the time comes for some one to judge whether we rose to the occasion or not, we shall have to our credit a record worthy of this House and of the nation."

The Financial Statement was accompanied by four Bills, namely, the Finance Bill, the Wealth Tax Bill, the Expenditure Bill (based mainly on the Kaldor Report) and the Railways Bill, all of which were passed by Parliament with some amendments during the July-September session.

APPENDIX E

NEW TAXES AT A GLANCE

Increase in excise duties: sugar (from 5 nP per lb. to 10 nP); motor spirit (from 98 nP per gallon to Rs. 1·25); vegetable oils (from 3nP per lb. to 5 nP); cement (from Rs. 5 per ton to Rs. 20); steel ingots (from Rs. 4 per ton to Rs. 40); and in varying degrees on tea, coffee, tobacco, matches, paper, diesel oil, and kerosene.

Personal Income-Tax and Super-Tax schedules to be revised and new scheme of surcharge levy to be introduced. This will mean that the total Income-Tax, Super-Tax and surcharge for the highest slab will be brought down from the existing level of 91·8% to 84% for unearned and 77% for earned incomes.

Present Income-Tax base is to be widened by reducing the taxable minimum from Rs. 4,200 to Rs. 3,000.

Income-Tax on companies to be raised from 4 annas to 30% and Corporation Tax from 2¾ annas to 20%.

Excess dividends tax will be reduced to 10% on distribution of dividends between 6% and 10% to 20% on distribution between 10% and 18% and to 30% on the balance.

Tax on bonus issues to be raised from 12½% to 30%.

It is proposed to reduce the rate of intercorporate Super-Tax to 10% both for Indian and foreign companies on dividends received from Indian subsidiaries. At present the rate is 17% for Indian companies and 20% for foreign companies.

Tax on undistributed profits of companies has also been reduced in certain specified cases.

Tax on wealth: For individuals, values up to Rs. 2 lakhs and for Hindu undivided families, values up to Rs. 3 lakhs will be exempted. For wealth exceeding this amount the rate of tax will be ½% for the first Rs. 10 lakhs, 1% for the next Rs. 10 lakhs and 1½% on the balance.

Agricultural properties exempted. Companies wealth would

be exempted up to Rs. 5 lakhs and thereafter ½% would be levied.

Tax on expenditure on individuals and undivided Hindu families whose income is over Rs. 60,000 per annum, but it will be for the financial year 1958-59.

Railway fare tax: The tariff will be 5% up to 30 miles, 15% on 31 to 500 miles and 10% on longer distances.

Postcard rate raised from 5 to 6 nP and reply post card from 10 to 12 nP. On inland telegrams the charge for every additional word over the minimum of eight words will be raised from 7 nP to 8 nP for ordinary telegrams and 14 nP to 16 nP for express telegrams. Charge on parcels raised (from 50 nP for every 40 tolas to 60 nP for the first 40 tolas and 50 nP for every additional 40 tolas).[1]

[1] *The Statesman*, May 16, 1957.

APPENDIX F

CHORUS OF SIGHS IN PARLIAMENT

Never before in the past 10 years of Independence has the Central Budget been received with so many audible moans as those that greeted Mr. T. T. Krishnamachari's new tax proposals to the Lok Sabha this evening.

As the Finance Minister unfolded his long series of suggested measures to raise additional revenue there was a chorus of sighs over most of his proposals, especially from the Opposition benches.

There was, however, some slight satisfaction from certain sections of the House at the mention of taxes on unearned income and wealth, but these sounded very faint indeed in comparison with the protests.

When the Budget speech was over and members collected in the lobbies to receive the Budget documents, it was clear that a majority of them had still far from recovered from what appeared to be a series of shocks.

Among Congress members, Mr. Feroz Gandhi, who is known for his outspoken speech, summed up the general reaction with the remark: "I am dizzy." Pandit Govind Malaviya said the Finance Minister was lucky that "these are not British days."

On the whole, Congress members were careful in expressing their opinions. One, a former Minister who was anxious not to be quoted, wondered how Mr. Krishnamachari would be able to persuade the Party to accept all the new taxes.

Industrialist members, irrespective of party alignments, gave the impression that they were stunned. Among the epithets they used were "drastic", "whole-sale massacre" and "far-reaching". A sense of shock seemed to colour all their statements.

Opposition views.

In the Opposition, the two sections of the Socialist Party were critical for different reasons. Their representatives

expressed sympathy for the "common man". One of them, Mr. N. G. Goray (P.S.P.) remarked: "The poor man is being stripped to the bone on the plea of clothing the Plan."

For the same reason, the leader of the Communist Party, Mr. S. A. Dange, expressed disapproval of the new taxes on sugar, tea, coffee, tobacco and matches, though he expressed qualified approval of the levies on wealth and expenditure.

It was, however, the Finance Minister himself who made perhaps the most forthright statement. Asked about what he really felt about his Budget, Mr. Krishnamachari replied: "This is the least that I could do to save the Plan."

It was an impressive speech that preceded the announcement of the new tax proposals. Rarely has a Finance Minister spoken with so much conviction and feeling. The statistics that Mr. Krishnamachari reeled off seemed secondary to his main theme—reconstruction of India as a Welfare State.

Except for the use of unavoidable technical language, the Finance Minister spoke in terms and of objectives which struck at the core of the problems which the country is facing. Without glossing over the present emergency, Mr. Krishnamachari reflected vigour and reasonable optimism.[1]

[1] *The Statesman*, May 16, 1957.

APPENDIX G

FINANCIAL STATEMENT

SUMMARY OF REVENUE AND EXPENDITURE

REVENUE

Heads of Revenue	1955-56 Accounts	1956-57 Budget	1956-57 Revised	1957-58 Budget
Customs	1,66,70	1,50,00	1,71,00	1,62,00 +6,00*
Union Excise Duties ...	1,45,25	1,70,35	1,88,73	2,09,43 +49,00*
Corporation Tax ...	37,40	48,24	48,24	50,50 +4,25*
Taxes on Income ...	1,31,36	1,41,36	1,41,36	1,47,10 +5,75*
Estate Duty	1,81	2,50	2,52	2,52
Taxes on Wealth ...	...	...	...	15,00*
Taxes on Railway Fares and Freight	...	...	...	8,00*
Opium	2,09	2,10	2,24	2,50
Interest	2,84	5,49	5,24	4,90
Civil Administration ...	14,45	11,06	15,49	43,21
Currency and Mint ...	23,09	23,67	24,48	36,02
Civil Works	2,66	2,39	2,70	2,95
Other Sources of Revenue	24,79	19,39	19,32	27,65
Posts and Telegraphs (Net Contribution) ...	3,47	1,60	5,30	3,09 +85*
Railways (Net Contribution)	5,80	6,57	6,03	6,67
Deduct—Shares of Income Tax payable to States	−55,16	−55,01	−58,75	−61,14 −3,00*
Deduct—Share of Estate Duty payable to States	−1,87	−2,32	−2,41	−2,43
Deduct—Share of Taxes on Railway Fares and Freight payable to States	...	...	...	−8,00*
TOTAL—REVENUE ...	5,04,32	5,27,39	5,71,49	6,34,97 +77,85*
Deficit on REVENUE ACCOUNT	...	18,04	...	33,12 −77,85*
TOTAL ...	5,04,32	5,45,43	5,71,49	6,68,09

* Effect of Budget proposals.

APPENDIX H

FINANCIAL STATEMENT

SUMMARY OF REVENUE AND EXPENDITURE

EXPENDITURE

(In lakhs of Rupees)
EXPENDITURE

Heads of Expenditure	1955-56 Accounts	1956-57 Budget	1956-57 Revised	1957-58 Budget
Direct Demands on Revenue	32,30	37,15	37,92	41,80
Irrigation	6	5	8	10
Debt Services ...	43,14	35,50	38,21	35,00
Civil Administration ...	94,07	1,35,91	1,33,64	1,91,02
Currency and Mint ...	3,34	3,76	5,02	6,72
Civil Works	12,14	15,90	14,54	15,93
Miscellaneous ...	60,23	60,49	59,16	75,73
Defence Services (Net) ...	1,72,23	2,03,97	2,02,95	2,52,70
Contribution and Grants-in-aid to States ...	35,87	38,00	29,60	25,23
Extraordinary Items ...	10,49	14,70	12,43	23,86
TOTAL—EXPENDITURE ...	4,63,87	5,45,43	5,33,55	6,68,09
SURPLUS ON REVENUE ACCOUNT	40,45	...	37,94	...
TOTAL ...	5,04,32	5,45,43	5,71,49	6,68,09

18-11-57